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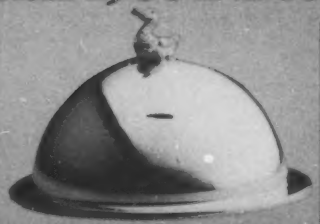
## R&I 1988 INDUSTRY FORECAST: REAL GROWTH OF 1.7%...51



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JANUARY 8, 1988

A Cahners publication serving the total foodservice industry

# RESTAURANTS & INSTITUTIONS

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JAN. 8, 1988

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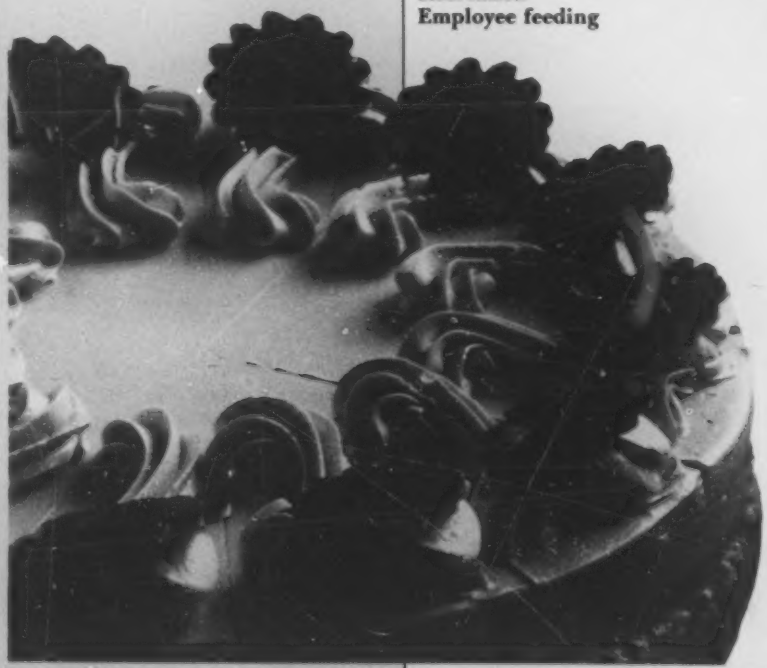


# R&I EXCLUSIVE

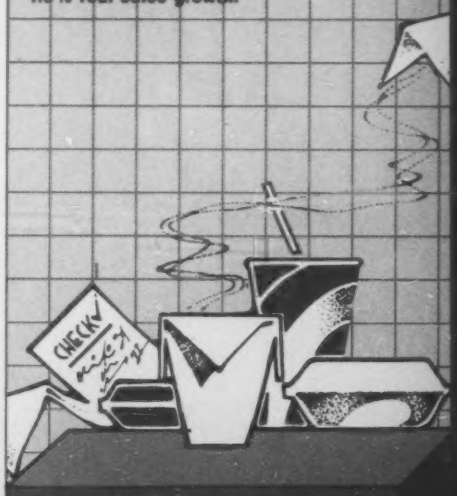
■ FOODSERVICE MARKET

# 1988 ANNUAL FORECAST

While overall economy remains uncertain, industry shows strength and vitality. Look to real growth of 1.9% on sales of $207 billion.

**F&B SALES EXPECTED TO TOP $200 BILLION IN 1988**

**Despite the unstable stock market, the sagging dollar and burgeoning federal deficit, the U.S. economy remains basically strong and the leading indicators are expected to stay positive for much of the year. *R&I* expects the foodservice industry to follow the broader market and show real sales gains in 1988, with food and non-alcoholic beverage sales alone passing the $200 billion mark for the first time. Discounting inflation for food away from home, which *R&I* has pegged at 4.2% this year, the industry is expected to show 1.9% real sales growth.**




In light of last October's Black Monday on Wall Street, any forecast about foodservice growth in 1988 has to be tempered with caution. We are in the midst of an uncertain world and a national economy that has most experts hedging predictions while leading business journals cite a host of factors to explain the year-end downturn and possible repercussions this year.

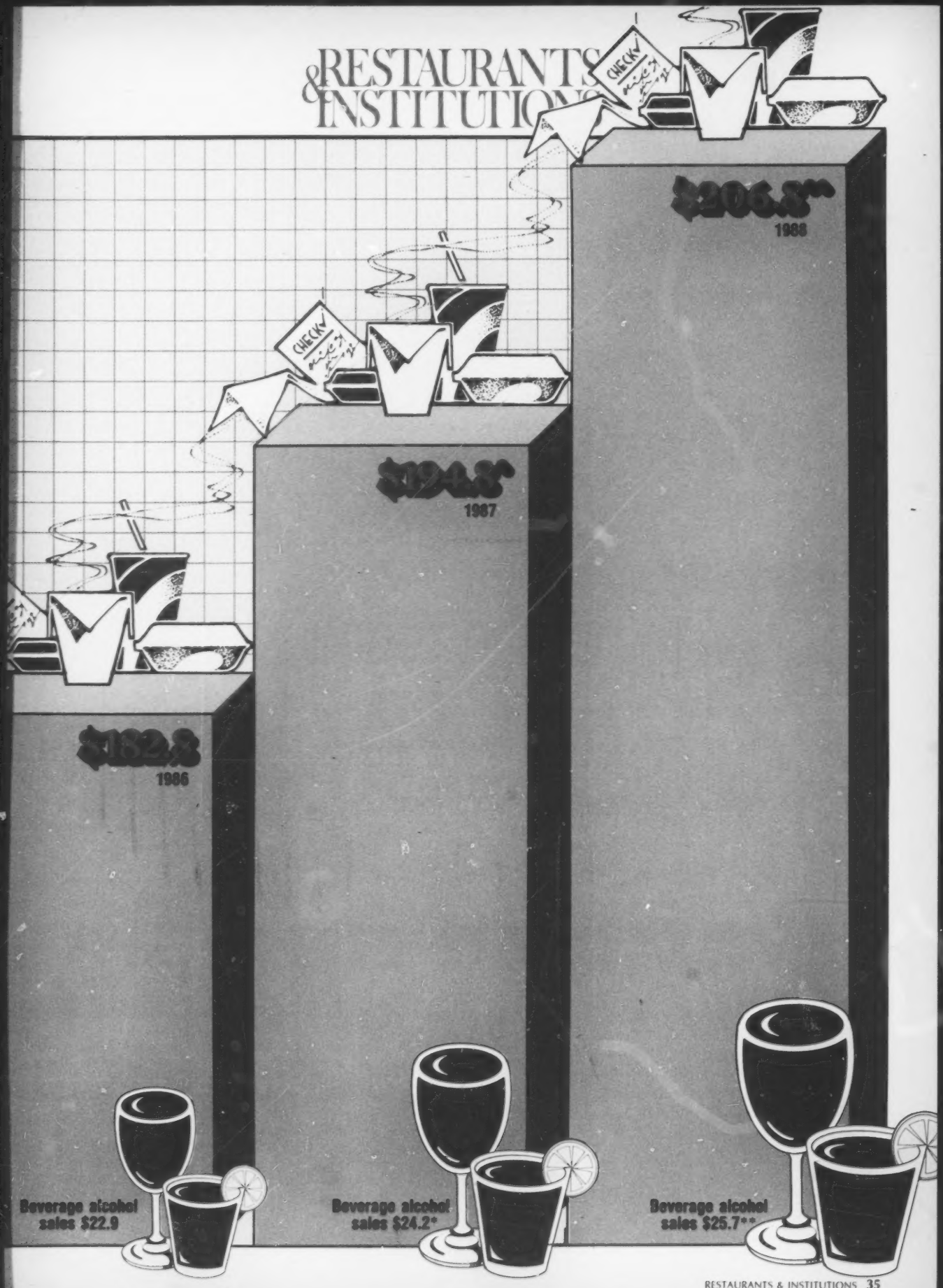
*The Wall Street Journal* speaks of "hazardous forecasting"; *Business Week* asserts America has "spent too much, borrowed too much and imported too much." Others see the major issue as a "battle between government deficits and Wall Street." Some focus on the fact that the GNP has grown only 3% at the same time the dollar has dropped 40% in value, effectively erasing any real gains. On the bright side, *Fortune* believes "a brisk business in basics will help keep profits growing decently" and thinks one positive benefit will be a paring of the domestic and trade deficits. Surveys of corporate CEOs show more than 50% predict 10% higher profits for their companies and the Dow Jones Industrial Average rising again to 2500.

Stock analysts like those at the Prudential-Bache Strategy Group are "not looking for a recession." Bache restaurant experts feel fast-food companies are far less vulnerable than auto manufacturers. They also predict that McDonald's, which went from $60 to $36 a share during the October crash before beginning to climb again, will show 1988 earnings per share of $3.45.

Whatever factors operators key on, there are definite reasons to be optimistic.

First, historical trends remain with the industry, as it shows real growth for the seventh consecutive year. *R&I*'s final estimate for 1987 is a stronger than expected +2.5% on total sales of $195 billion. Add to this our prediction of 1.9%

*preliminary **forecast ©1988 *Restaurants & Institutions*, a Cahners publication.


1988
1987
1986
Beverage alcohol sales $22.9
Beverage alcohol sales $24.2*
Beverage alcohol sales $25.7**

# 1988 ANNUAL FORECAST

## SEASONAL OUTLOOK

Foodservice is a seasonal business, affected by both weather and consumer confidence. Here's how 1988 looks:

**Winter:** Both the woolly caterpillar and weather watchers agree a hard winter is likely. The result? Traffic counts could slip if icy winds cause customers to huddle around the family hearth. Concurrently, memories of Black Monday will still cause shivers in corporate board rooms, leaving expansion plans frozen.

**Spring:** Consumer confidence will begin to thaw as better economic news blossoms. But tax deadlines could dampen new growth when the affluent realize that seeds of tax reform have grown into the clinging vines of surcharge. Meanwhile, innovators will come out of hibernation to breathe new life into tired concepts.

**Summer:** Business will heat up as the weak dollar brings crowds of overseas visitors to America. Takeout will be in for outings, but couch potatoes will break out of their cocoons to emerge as social butterflies frequenting air-conditioned restaurants. Family vacations will put America on the road.

**Autumn:** A bountiful harvest will ensure another year of stable food prices. As election day draws near, politicians will loosen money supply to strengthen consumers' sense of well-being. Bond issues will be approved, easing pressure on institutional operators. *R&I* will predict 2.2% growth for 1989.

## Key trends for 1988: Plain vanilla, market redefinition and "nutritioneering."

real growth on sales of $207 billion for 1988 and the two-year total adds up to a very solid performance. This outlook is consistent with the even more optimistic forecasts of Technomics Inc. (2.6%) and the National Restaurant Association (2.9%), both made before the stock market tumble.

Second, foodservice traditionally weathers economic storms well, and, if you accept the theory that when consumer spending on major puchases slows, thereby leaving more disposable income for dining out, this should bolster traffic counts. The foodservice share of food dollars is now 44%, continuing an upward trend that dates back to 1955. *R&I*'s latest "Tastes of America" national consumer survey shows three growth areas: more people saying they will eat out during 1988, a higher weekly average expenditure on food away from home ($31) and a better "good value" rating for foodservice over retail grocery.

Finally, a year-end *R&I* survey of chain and independent operators reveals a basically positive mood. More than 75% of the chain operators said the second half of 1987 would show a sales increase of 5.5% and indicated that 1988 ought to be "an excellent year." An additional 20% see 1988 as a "good year." Factors of most concern to chains were the economy (50%) and minimum wage (40%). Independents who said this year will be excellent numbered 34%, while more than 47% said it will be a good year. Nearly 67% cited the economic climate/local business as their major worry, with 16.7% mentioning labor problems.

Looking at the market as a whole, Technomics Inc. says the commercial sector will account for about 61% of sales, with institutional providing the other 39%. The commercial will be split between the top 100 restaurant companies at 22%, and smaller chains and independents at 39%. The top 10 chains will show slower growth, along with declining average unit volumes.

According to *R&I* estimates, full service will maintain its leading market share at 32.7%, growing 2.4% on sales of $67.6 billion; fast food's share will be 30.1%, with growth at 1.8% on sales of $62.2 billion. Employee feeding (7.1% share, $14.6 billion sales) and elementary/secondary schools (6.8%, $14.1 billion sales) claim the next largest shares of the foodservice market.

From a growth viewpoint, segment leaders are c-store/deli (7%), full service (2.4%) and nursing homes (2.1%). Slowest growth is predicted for hospitals and the military at 0.3% and colleges/universities at 0.4%. Overall, every segment of the industry is expected to make gains.

Against this background, *R&I* sees the following important trends shaping the foodservice industry during the coming year.

**Plain vanilla:** While growth will be steady, conservative strategies will prevail, as menus contract and marginal items disappear more rapidly.

**Market redefinition:** As the market continues to redefine itself, marketers will switch from operation-specific to a menu/product specific tactic.

**Equipment renovation:** Many units need updating and modernization; remodeling of kitchens will be big business.

**C-store realism:** No longer will c-stores be seen as the magic road to quick-service growth; segment will face a number of critical challenges.

**Breakfast opportunities:** This daypart still offers growth possibilities, which more operators will exploit.

**Elder-care expansion:** The nursing home segment will continue to subdivide into various types of care facilities as occupancy pushes 100%.

**Off-premises hot:** Takeout and other forms of off-premises consumption will lead the way in growth during 1988.

**Food safety top of mind:** There will be more concern about food safety and this will have a negative impact on self-service operations.

**Labor crisis:** Help wanted signs will hang out everywhere as severe labor shortages prevail in all segments.

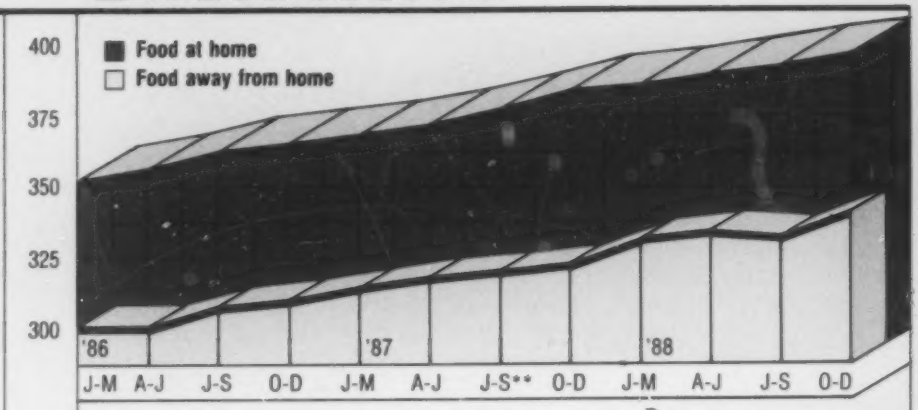
**WOOFS:** Well-off old folks will be latest customers of choice.

**Nutritioneering:** Americans' concern for healthful eating will lead to "nutritioneering" on part of operators who will turn to computers to systematize menu planning. ***—Michael Bartlett***

&RESTAURANTS INSTITUTIONS

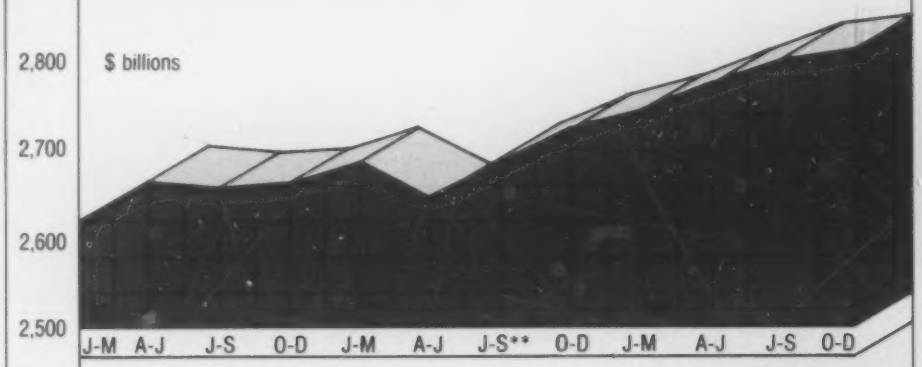
## FOOD PRICES CLIMB

The Consumer Price Indexes for both food at home and food away from home will continue to increase gradually throughout 1988, as the federal government is expected to hold inflation at bay. During 1987, fruits and vegetables led the price spiral, increasing more than 7% from a year earlier. The indexes are based on 1967=100.



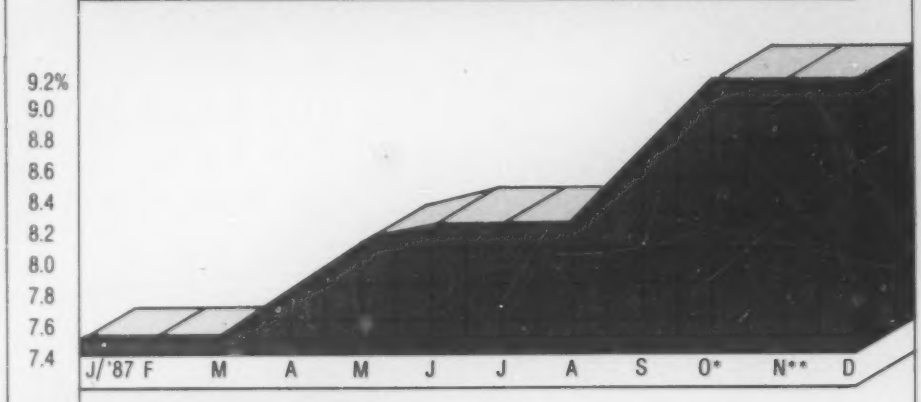

## INCOME TO LEVEL OFF

Economists predict real disposable personal income will continue to rise throughout this year, recovering from a dip in mid-1987. With inflation expected to stay in check, consumer dollars will stretch further. However, many Americans are still paying off heavy debts accrued in recent years, which will keep disposable income from increasing faster.




## PRIME HOLDS ABOVE 9%

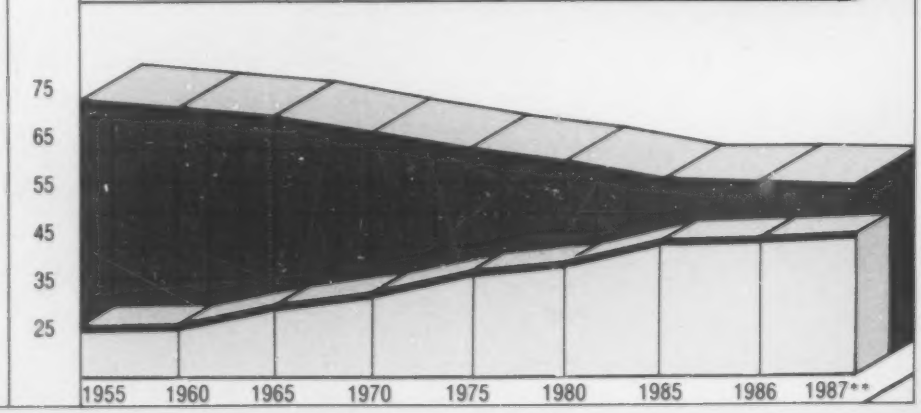
The prime rate, the interest rate banks charge to their preferred customers, was expected to hold steady during the closing months of 1987, slightly above 9%. Economists do not foresee a big increase in the rate this year, which is good news for foodservice firms seeking expansion capital.




## SHARE OF DOLLAR GROWS

Foodservice now commands more than 44% of total food dollars spent in the United States, up from about 25% in 1955. The rate of increase has slowed somewhat in recent years, as the advent of microwave ovens and VCRs has been a boon to the retail food business.

■ **Retail**
□ **Foodservice**




Source: U.S. Department of Agriculture Economic Research Service

**forecast begins

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# 1988 ANNUAL FORECAST

## ABOUT *R&I*'S 1988 FORECAST

*Restaurants & Institutions*' "Annual Forecast" is compiled by the magazine's Bureau of Foodservice Research in conjunction with Cahners Department of Economics. The forecast is based on a variety of macroeconomic indicators, including consumer spending, employment and the prime rate, as well as foodservice-specific trends, such as the Consumer Price Index for food away from home and employment in eating and drinking places. Sales figures for 1987 have been revised from those published in *R&I*'s 1987 "Annual Forecast" to reflect what actually occurred in the marketplace during the year. Therefore, real growth figures quoted in this issue are based on revised sales figures. ☐ In the institutional segments, figures are calculated as commercial-sales equivalents, based on food purchases. Food contractor sales are included in the segment where they occur. "Other" foodservice includes primarily fraternal clubs, prisons and recreational camps. ☐ Commercial cafeterias and food sales from separate drinking places are included in the full-service segment.

### FULL SERVICE

**1988 sales: $67.6 billion**
**1988 beverage alcohol sales: $20.9 billion**
**Real growth: 2.4%**
**Market share: 32.7%**
**Units: 187,700**

### FAST FOOD

**1988 sales: $62.2 billion**
**1988 beverage alcohol sales: $684 million**
**Real growth: 2%**
**Market share: 30.1%**
**Units: 145,000**

### LODGING

**1988 sales: $8.1 billion**
**1988 beverage alcohol sales: $3.5 billion**
**Real growth: 0.5%**
**Market share: 3.9%**
**Units: 23,200**

### C-STORE/DELI

**1988 sales: $4.7 billion**
**Real growth: 7%**
**Market share: 2.3%**
**Units: 63,800**

### RETAIL

**1988 sales: $2.7 billion**
**1988 beverage alcohol sales: $3 million**
**Real growth: 0.9%**
**Market share: 1.3%**
**Units: 28,800**

### RECREATION

**1988 sales: $2.5 billion**
**1988 beverage alcohol sales: $382 million**
**Real growth: 1.1%**
**Market share: 1.2%**
**Units: 25,000**

### TOTAL COMMERCIAL

**1988 sales: $147.8 billion**
**1988 beverage alcohol sales: $24.7 billion**
**Real growth: 2.2%**
**Market share: 71.5%**
**Units: 440,900**

# &RESTAURANTS INSTITUTIONS

## EMPLOYEE FEEDING

**1988 sales: $14.6 billion**
**1988 beverage alcohol sales: $49 million**
**Real growth: 1.8%**
**Market share: 7.1%**
**Units: 25,000**

## SCHOOLS

**1988 sales: $14.1 billion**
**Real growth: 1.3%**
**Market share: 6.8%**
**Units: 89,300**

## HOSPITALS

**1988 sales: $9.9 billion**
**1988 beverage alcohol sales: $22 million**
**Real growth: 0.3%**
**Market share: 4.8%**
**Units: 6,890**

## COLLEGES

**1988 sales: $6.7 billion**
**1988 beverage alcohol sales: $38 million**
**Real growth: 0.4%**
**Market share: 3.2%**
**Units: 3,350**

## MILITARY

**1988 sales: $4.7 billion**
**1988 beverage alcohol sales: $399 million**
**Real growth: 0.3%**
**Market share: 2.3%**
**Units: 3,320**

## NURSING HOMES

**1988 sales: $4.2 billion**
**1988 beverage alcohol sales: $23 million**
**Real growth: 2.1%**
**Market share: 2%**
**Units: 23,100**

## TRANSPORTATION

**1988 sales: $2.8 billion**
**1988 beverage alcohol sales: $503 million**
**Real growth: 1.5%**
**Market share: 1.4%**
**Units: 350**

## TOTAL INSTITUTIONAL

**1988 sales: $59 billion**
**1988 beverage alcohol sales: $1 billion**
**Real growth: 1.2%**
**Market share: 28.5%**
**Units: 142,310**

## ALL OTHER FOODSERVICE

**1988 sales: $1.9 billion**
**Real growth: 1.7%**
**Market share: 0.9%**

Source for unit figures: Technomic Inc.

# 1988 ANNUAL FORECAST

**I think theme restaurants will grow. When people eat out, they will want a little fantasy. They'll want to go to the dinosaur place or the cowboy place. *—Marvin Cetron, president, Forecasting International Ltd., Arlington, Va.***

**Sen. Kennedy, with the minimum-wage and parental-leave legislation, could single-handedly cause a recession. But I think smarter heads will prevail. *—Joe Fassler, president and chief operating officer, Greyhound Food Management Inc., Phoenix, Ariz.***

**We've seen the worst—sales have bottomed out. I wouldn't be surprised if restaurant stocks outperform this year. *— Caroline Levy, analyst, E.F. Hutton, New York***

## Restaurant analysts and financial executives predict tighter consumer spending.

After watching the stock market, listening to consumers and running numbers, restaurant-industry observers have concluded that sales will modestly increase this year and that people will spend their meal dollars very carefully.

"We see 1.5% to 2% real sales growth," says Joseph Doyle, an analyst at Smith Barney, New York. Doyle bases his number on fast-food growth of 4% and full-service growth of 1%. "We don't see a recession. We see modest gains in real disposable income, and therefore modest gains in restaurant sales," he says.

At E.F. Hutton, New York, analyst Caroline Levy sees 1988 as a period of slow growth, bordering on a recession. Levy predicts growth of 1%, based on the fact that a modest increase in sales will be spread over 6% to 8% more units.

Fast food will take market share away from other segments, she says, a result of consumers "trading down." Dinnertime traffic and sales will slow, since eating dinner away from home is less of a habit than eating lunch or breakfast away from home, she says.

However, the news from Hutton isn't all cautious. "We've seen the worst—sales have bottomed out. I wouldn't be surprised if restaurant stocks outperform this year," Levy says. She also sees the trend toward consolidation continuing.

Joe Fassler, president and chief operating officer at Greyhound Food Management Inc., predicts best-case total industry growth of 2%. Disposable income will remain flat, and people will spend money only where the value is great, he says. "Pizza will do the best. It's a good value nutritionally, and all the coupons make it a great dollar value."

Fassler does not foresee a recession and bases his prediction on the government's better judgment. Congress was slow to react to the deficit and trade imbalance and will spend 1988 making up for that sluggishness, he says. "These people will get serious. I see this as a balancing year," he says.

Financial executives at General Mills Restaurants, Orlando, Fla., say sales growth of 0% to 1% is more in line with the industry environment. "We feel the market is down," says a General Mills spokeswoman. "Chains are for sale or not growing, and those that are growing are doing so through conversions. Fewer units mean less growth."

The company, which operates Red Lobster, The Olive Garden Italian restaurants and York's steakhouses, sees a future in both takeout, because of the convenience factor, and ethnic food, because the prices are low and the food is perceived as healthful.

Gerald Deitchle, chief financial officer at Jerrico, Lexington, Ky., sees some improvements in restaurant sales. Twenty-five percent of Jerrico's company-owned Long John Silver's units are in the Oil Patch and have experienced down sales for the past four years. "We're not looking for a recession; if there is one, it won't affect sales more than the Oil Patch situation," Deitchle says. Jerrico does foresee a slowdown in consumer spending, but not one that will affect Long John Silver's.

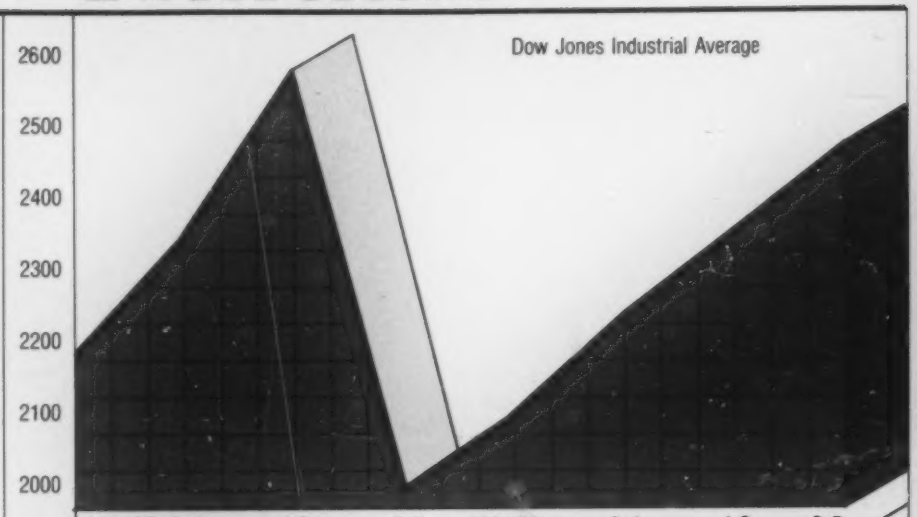
Consumers' search for the best value and their reluctance to spend signals a move toward the middle, says Dr. Marvin Cetron, an economist who just finished a 50-year projection study of the hospitality industry. "This is a major change that will affect the restaurant industry," Cetron says. "A lot of people will eat a fast-food meal for lunch, and a fancy-food meal in the evening. With both spouses working, they're going to buy from both ends of the spectrum."

Tax laws are making this change easier, says Cetron. "We can't get wealthy anymore because the tax law plugs those holes, and the poor people are not paying taxes so we're getting one big middle class coming out." By the year 2020, the United States social structure will resemble Sweden's, he says.

Like Greyhound's Fassler, Cetron thinks that the government will do what it takes to rein in the economy. Congress will balance the budget, he says. The fact that the dollar is coming down will allow companies to sell products overseas and even out the balance of trades. "I really think we're in pretty good shape," he says. ***—The Editors***

## WILL MARKET CRASH HURT FOODSERVICE?

Company coffers were hit hard by the stock market crash in October. Many foodservice firms took advantage of their depressed stock prices to buy back shares, but the purchases did little to bolster stock prices. With stocks trading at lower prices, companies will have less money on hand to invest in expansion and remodeling plans. Financial and stock analysts, however, expect the market to recover much of its value this year, which should ease the cash crunch.

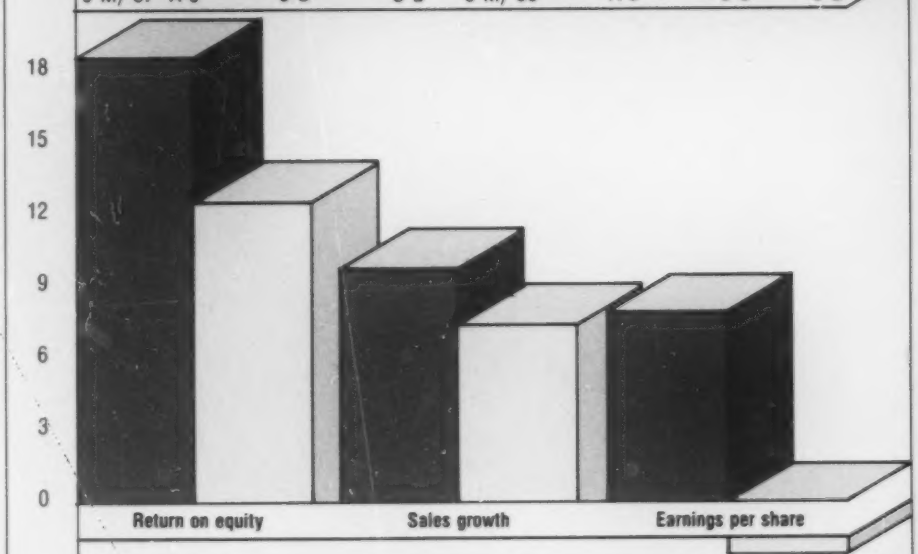



## RESTAURANT INDUSTRY AMONG BEST-MANAGED

The restaurant industry outpaces other industries by a wide margin in three areas: return on equity, sales growth and earnings per share. Many fast-food franchises require a relatively small capital investment, but yield a substantial return. Industry sales can be counted on to increase every year, and the growth rate is usually appreciably above the all-industry average.

■ **Restaurant industry**
□ **All-industry median**

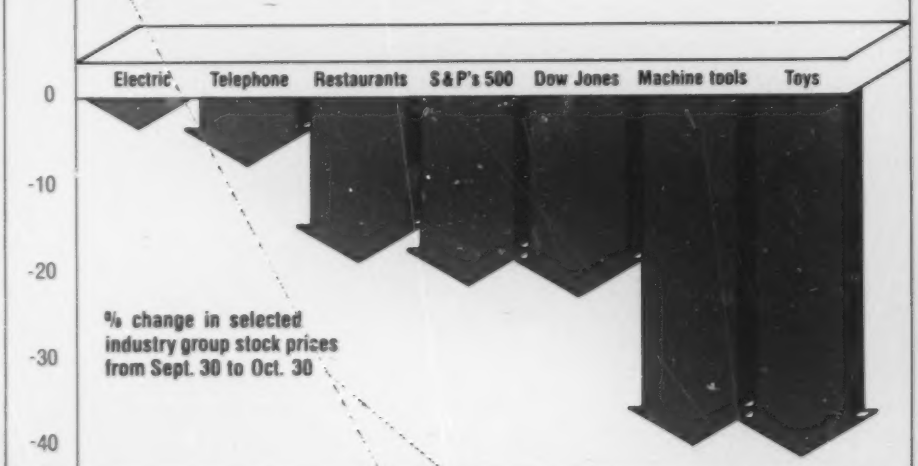
Source: Forbes 39th Annual Report on American Industry




## RESTAURANT STOCKS FARE BETTER THAN MANY

The stock market crash last fall hit some industries much harder than others, with industry group stock prices dropping anywhere from 3.5% to 41.8%. Restaurant stocks were somewhere in the middle, falling 18.8% during the month of October, compared to a drop of 23.2% in the Dow Jones Industrial Average.

Source: Smith Barney, Harris Upham & Co.

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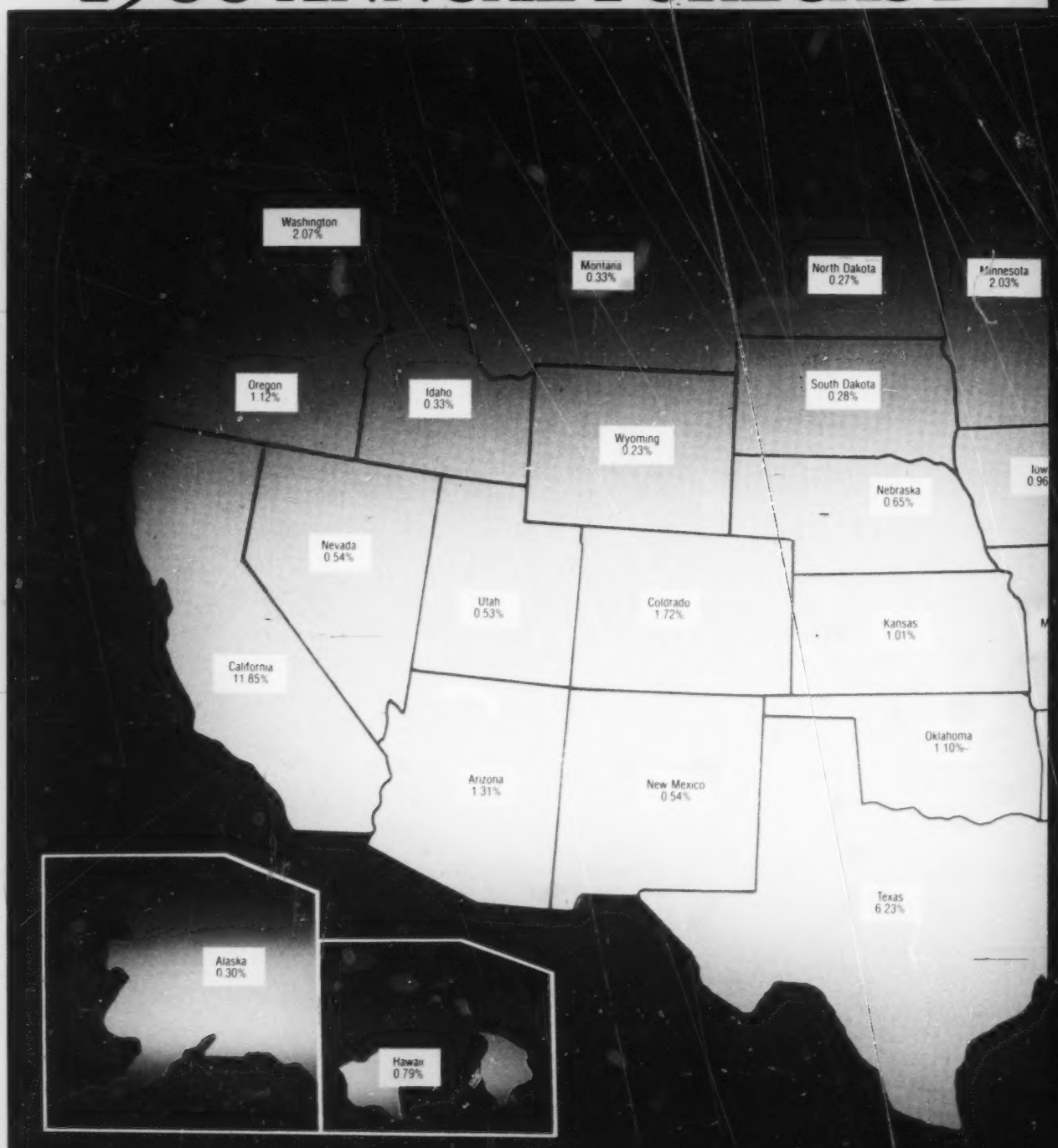
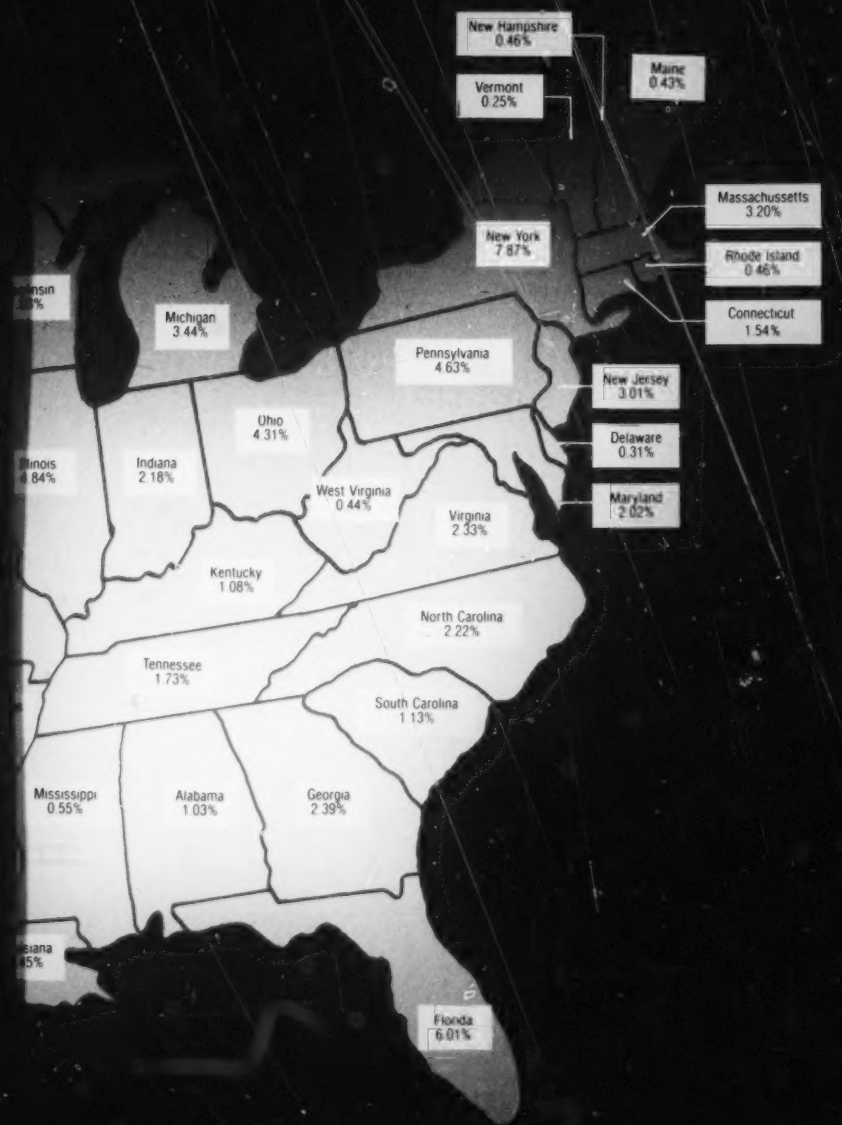
# 1988 ANNUAL FORECAST




## R&I FOODSERVICE MARKETING MAP

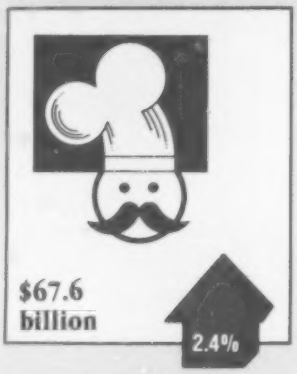
The South Atlantic states generate more foodservice sales than any other region, nearly one-fifth of the total. The top-grossing states, however, are spread across the country. California, Texas and New York. Together they account for nearly 25% of all sales.

# RESTAURANTS & INSTITUTIONS




| | |
|---|---|
| New York City | 4.79% |
| Los Angeles Long Beach | 4.54 |
| Chicago | 3.52 |
| District of Columbia | 2.03 |
| San Francisco Oakton | 1.96 |
| Detroit Warren, Mich. | 1.75 |
| Philadelphia | 1.66 |
| Atlanta | 1.50 |
| Houston | 1.49 |
| Boston | 1.44 |
| Dallas | 1.38 |
| Miami | 1.37 |
| Newark, N.J. | 1.20 |
| Seattle | 1.05 |
| Denver Aurora | 1.04 |
| San Diego | 0.99 |
| Cleveland | 0.98 |
| Minneapolis | 0.97 |
| Baltimore | 0.94 |
| Tampa | 0.92 |
| St. Louis | 0.91 |
| Columbus, Ohio | 0.84 |
| Milwaukee | 0.84 |
| Phoenix Mesa | 0.79 |
| Indianapolis | 0.76 |
| Pittsburgh | 0.76 |
| Kansas City, Mo. | 0.70 |
| Cincinnati | 0.68 |
| Portland, Ore. | 0.64 |
| San Antonio | 0.60 |
| New Orleans | 0.58 |
| Sacramento, Calif. | 0.58 |
| San Jose, Calif. | 0.55 |
| Nashville | 0.51 |
| Buffalo | 0.50 |
| Austin, Texas | 0.49 |
| Jacksonville, Fla. | 0.48 |
| Oklahoma City | 0.48 |
| Rochester, N.Y. | 0.48 |
| Arlington Ft. Worth, Texas | 0.47 |
| St. Paul | 0.47 |
| Anaheim Santa Ana, Calif. | 0.45 |
| Memphis | 0.45 |
| Grand Rapids, Mich. | 0.42 |
| Salt Lake City | 0.41 |
| Charlotte, N.C. | 0.39 |
| Louisville | 0.38 |
| Richmond, Va. | 0.38 |
| Knoxville, Tenn. | 0.36 |
| Omaha | 0.36 |

# 1988 ANNUAL FORECAST




**FULL SERVICE GAINS BUT AT SLOWER PACE**

In 1988, full service, with the lion's market share, will continue 1987's upward trend with modest growth in sales and units. (Units include separate drinking places serving food.) Gains will not be equally distributed within the segment, which comprises fine dining, private clubs, casual/theme, steakhouses, coffee shops/family dining and cafeterias.

(food and non-alcoholic beverage sales in billions)

**1988 units: 187,700**

**1988 market share: 32.7%**

**1988 beverage alcohol sales: $20.2 billion**

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*preliminary **forecast

■ **FULL SERVICE**

## Diversity of full-service segment creates widely varied outlooks, challenges in '88.

For a sharper focus on full service—more widely diversified than other commercial segments—*R&I* surveys each of its subdivisions: fine dining and private clubs at the high-priced level, casual/theme restaurants and steakhouses at the midpriced range, and coffee shops/family dining and cafeterias at the budget end of the spectrum.

Fine-dining operators spent most of 1987 waiting for the other shoe to drop after the 80% cap on business-meal deductions landed with a thud. Many now feel they won't have to wait any longer than April 15. "The effect of the 80% deduction will be worse in 1988, affecting all business entertaining," predicts Jimmy Rohr, proprietor of Jimmy's Place, Chicago. Rohr believes the reality will register when tax calculations for the fiscal year begin.

Victor Gielisse, chef-partner of Actuelle, Dallas, believes that "1988 will be a very tough year. The 80% deduction has had an effect on us, especially at lunch." But others take a different view. Larry Levy, of the Levy Restaurants in Chicago and Pittsburgh, says, "The 80% was not discernible last year at Spiaggia," the fine-dining restaurant atop Chicago's One Magnificent Mile. He cites tourism in Chicago and Spiaggia's location as "somewhat counter recessionary."

Tourism is a major factor in the success of Restaurant de la Tour Eiffel. Chef-partner Daniel Bonnot says, "New Orleans has a population of about 700,000—and 2,000 restaurants. We look for 1988 to be a good year."

Barry Wine, chef-proprietor of The Quilted Giraffe, New York, has seen a little falloff in business entertaining traceable to the 80% deduction, "but that doesn't affect legitimate business entertaining—which needs to be done. It does, however, affect the expense-account perks." Charles Frank, president of Spectrum Foods, San Francisco, which operates 14 California restaurants, says, "If you have a million-dollar business deal to discuss over dinner, you don't care. I feel the 80% deduction will affect middle, not top, management—and consequently our *trattoria*-style restaurants, rather than fine dining such as Chianti."

George Lang, proprietor of Café des Artistes, New York, warns, "You have to be careful in playing a limited game of futurality. Fine dining is one criteria of a restaurant, size is another, what role it plays within the community a third. Clearly, if you hope to discuss a million-dollar deal over dinner, there's no question it will happen. But if you have a 200-seat fine-dining restaurant, there are not going to be that many million-dollar deals. Restaurants in the coming year and *years* will have to be marketed in such a way as to have a multimarket source for business."

Continuous and aggressive marketing was seen by Rohr, Gielisse and others as a major challenge for 1988. For Wine, a pioneer in replacing tipping with service charge at The Quilted Giraffe, it was "getting waiters to understand that declaring 100% of their income is part of living in America." For Levy it was "controlling food cost at Spiaggia;" for Frank, "government intervention and regulations."

With few exceptions, fine-dining operators were active in takeout, seeing it as a major trend. And many reported private dining rooms as profitable. Or, like George Lang and Joseph Baum (of New York's new Rainbow complex), had elaborate private facilities planned for 1988.

Business was "slightly up, about 5% for private clubs in 1987," says Mead Grady, incoming president of the Club Managers Association of America, but his projections for 1988 are conservative. "No great increases overall. The Oil Belt is bouncing back, but with no great strides." And while few fine-dining operators saw a minimum-wage increase as a threat, Grady says, "It is a very definite threat. An increase could hurt us terribly."

The CMAA reports its approximately 4,000 member clubs with 2.87 million members rang up an estimated $2.6 billion in food and beverage sales for the fiscal year ending Oct. 31. And CMAA estimates there are an additional 5,000 private clubs in America who

**A landmark bit of Paris: Restaurant de la Tour Eiffel was dismantled in 1981, crated, then recreated in New Orleans by partners Onorio and Bonnot.**

are potential members. In addition to minimum wage, Grady sees the overall economy as the biggest hurdle ahead for clubs and says "1988 will really be the test for the impact of the 80% deduction."

Casual/theme restaurants fared well during 1987 and should continue to offer customers the opportunity to eat out stylishly several times weekly for prices substantially below fine dining. The hottest new theme is the bistro-*trattoria*-cafe concept. Frank says Spectrum's just-opened Tutto Bene, a *trattoria*, "serves all appetizers and platters, catering to today's style of eating that we call sharing, not grazing."

In Chicago, Levy's newest—Bistro 100 opened in partnership with Doug Roth in August 1987—features oven-roasted "delicious, straightforward, unpretentious food in a very unthreatening fun atmosphere," says Larry Levy. It has enjoyed sales of $100,000 a week or better.

Even established theme operations such as Old Spaghetti Warehouse in Texas reported business was up for 1987 and predict more good news for 1988. William C. Hoffman, president of Carolina's Restaurant and Bar in Philadelphia concurs: "1987 was up for us by about 7% and 1988 should be [illegible] equal. This segment is healthy because we are not special occasion restaurants. The customers' discretionary income goes farther in our type of restaurant." Like fine-dining restaurateurs, casual/theme operators are devoting time and energy to takeout, which, says Hoffman, "will have a major impact for the next 10 years."

Questions about how the steakhouse segment is doing meets with some resistance from major players Sizzler (Collins Foods International Inc.) and Bonanza (USACafes). "We don't look at ourselves as being in the steakhouse segment," says Tom Gregory, Sizzler's CEO. "We have more chicken and fish items on our menu than we do steak." Jeff Rogers, president and CEO of Bonanza says, "Traditional budget steakhouses are no longer our major competitors. Instead, the competition comes from family dining and some casual/theme restaurants."

But upscale or budget, steakhouses as a group performed somewhat better than most full-service restaurants in 1987 and should do well in 1988. On the upscale end, steakhouses' gain is credited to their diverse menus. According to a recent Bonanza customer

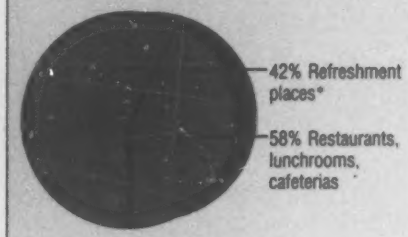
**WHAT'S NEW FOR '88**

- Fine-dining operators cite the economic climate as a major factor affecting business in 1988. Related concerns: aftershock after taxes when 80% meal-cap deduction sinks in; also fallout from stock market dive in October 1987.
- Increased minimum wage poses major threat to estimated 9,000 private clubs.
- Big news in casual/theme restaurants is popular bistro concept. Good news is operators' predictions for another good year.
- Gulf between upscale and budget steakhouses widens, though both performed well in 1987 and expect growth in 1988.
- "Oil Patch zip codes" and increased competition from other segments contribute to softness in cafeteria sector.
- Continued pressure for breakfast business from fast food and losses to casual/theme and steakhouses at dinner make for flat family dining.

# 1988 ANNUAL FORECAST

## DIFFERENT WAYS TO CUT FOODSERVICE PIE

*Restaurants & Institutions* traditionally has divided the industry into as many discernible segments as practical—the better to analyze it. But there are many different ways of categorizing the commercial segment, four of which are shown below.

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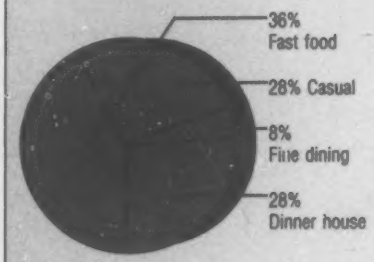
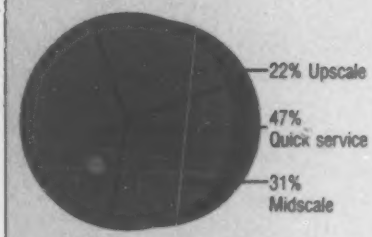
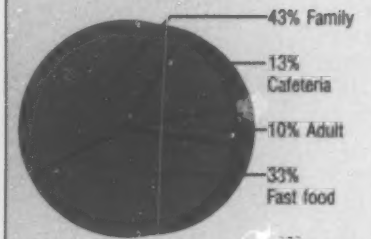



MARKETSCORE




GRD/CREST




GALLUP

*Refreshment places=fast food

survey, variety, price and location were major factors behind consumers' choices.

Both Bonanza and Ponderosa report an increase in younger, more affluent, white-collar customers.

Meanwhile, traditional budget steakhouses such as Ryan's cite an increase in older customers who come to take advantage of the extensive food bar that includes meat and vegetables—to the chagrin of the cafeteria segment that resorted to belt-tightening to make a profit when faced with 1987's declining customer counts.

Richard McGeoch, senior vice president of corporate planning at Morrison Inc., says that while cafeterias are still the biggest competitor, "We're seeing an increase in competition from family restaurants and steakhouses."

Rodney Garrison, senior vice president and treasurer of Piccadilly Cafeterias Inc., says, one reason for customer count declines "is the sheer increase in the number of restaurant options." Luby's Cafeterias Inc. Vice President of Marketing Vernon Schrader agrees, adding another reason for the segment softness: "So many cafeterias have Oil Patch zip codes."

Expanding out of the Oil Patch (Texas, Arkansas, Oklahoma) is part of the 1988-89 battle plan both at Luby's and Piccadilly's.

Morrison, with all of its stores east of the Mississippi, has been able to focus more attention on labor problems. One new concept, Morrison's Sadie's Buffet, gets around the labor shortage problem, offsetting higher food costs in labor savings. Morrison is cautious about Sadie's future, but plans to add at least three by June 1988.

Also relatively flat in 1987 was the family-dining segment. While some operations, such as the International House of Pancakes, reported increased business in 1987 and predicted the same for 1988, other major players such as Bob Evan's Farms, Denny's and Country Hospitality are not as optimistic.

Roger Williams, vice president of direct marketing at Bob Evan's Farms Inc., says, "For us real growth in 1986 was 3.9%; 1987 was at 2.8% and 1988 looks flat. I think that's pretty reflective of the segment."

Reasons ranged from pressure on the low end from fast-food restaurants for breakfast business—to erosion of dinner sales by steakhouses and casual/theme restaurants, according to Allan Post, senior vice president of marketing for Country Hospitality.

Denny's strategy, says Senior Marketing Vice President Barry Krantz, has been to move more upscale, adding credit cards and private label wine, and giving dinner more emphasis. Krantz says, "I think a lot of the problem is that midscale has tended to market itself as a commodity and hasn't done enough to market itself as something consumers find important. We must try to do things uniquely."

But Bob Evans and Country Hospitality are taking another tack: away from the coffee shop image and appealing to middle America with a back-to-basics menu emphasizing reasonably priced dinner items.

"Our customers are real middle of the road," says Hospitality's Post. " You know, mom, pop and the kids in the station wagon. They don't give a darn about fajitas; they want country fried steak and apple pie." Says Williams of Evans, "Bob Evans cannot compete in the $6 to $9 range. By adding four items: homemade meatloaf at $4.45, country fried steak at $4.45, homemade beef stew at $3.95 and charbroiled catfish at $5.95—all accompanied by mashed potatoes and gravy—we should reach our target markets. This will also make us more competitive with independents and budget steakhouses."

***—Nancy Ross Ryan and Monica Kass***

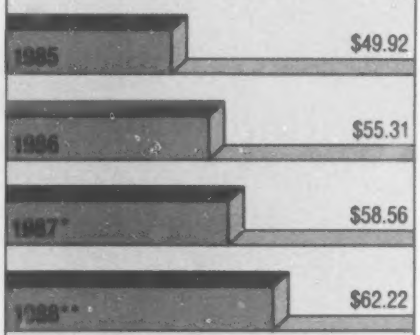
**Winning theme: The Old Spaghetti Warehouse, Austin, Texas**

# 1988 ANNUAL FORECAST

**FAST-FOOD INDUSTRY SLAMS ON THE BRAKES**

After a phenomenal growth spurt in 1986, with 6.8% real sales growth, the fast-food industry is reaching maturity and is posting substantially smaller growth figures. Real growth was only expected to reach 1.8% during 1987 and slightly more (2%) during 1988. This will be caused in part by most chains adding fewer restaurants to their systems.

(food and non-alcoholic beverage sales in billions)




**1988 units: 145,000**

**1988 market share: 30.1%**

**1988 beverage alcohol sales: $684 million**

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*preliminary **forecast

■ **FAST FOOD**

## New units will play a smaller role in segment growth as some markets approach saturation.

Stand in a fast-food restaurant parking lot and what do you see? Another fast-food restaurant. The fast-food restaurant industry is fast approaching its saturation point. So few new dollars are coming into the fast-food arena that *Restaurants & Institutions* is predicting only 2% real growth for the segment during 1988.

With few exceptions, one fast-food chain's growth will be at the expense of another. As one bottom line inflates, another deflates and the segment stagnates.

But 2% growth is no reason for gloom and doom. *R&I* predicts real growth for the entire foodservice market will be a conservative 1.9%, down from a revised growth figure of 2.5% in 1987. Of the other 13 categories in the industry, only three are predicted to have better growth than fast food.

The next question is what will drive this growth in 1988. *R&I* posed this question to a range of industry experts. Their responses touched on specific restaurant chains and menu items as well as broad topics such as the future of delivery.

**Regional differences, similarities**

Leslie Steppel is almost apologetic with her assessment of fast food in the Northeast during 1988. "I just don't think that this is the time when people are going to be very gutsy," says Steppel, restaurant industry analyst for Prudential-Bache in New York. "I don't see many start-up chains or accelerated expansion even among the established chains.

"Chains have been scaling back their expansion throughout '87, and that will continue into '88. People are going to continue to build up same-store sales. They'll do it through the introduction of a new product here and there, and I think they'll rely a lot more on advertising and creating a marketing image."

Steppel says she sees no change in the traditional difficulties that pizza and fast-food seafood chains have had in the Northeast (the former because everyone has a favorite corner independent operator and the latter because fresh seafood is readily available throughout New England).

**Fred Turner (l.) and Michael Quinlan, McDonald's Corp.**

But what is true in the Northeast is not so in the North Central region. A.G. Edwards & Sons analyst Jay Fairfield sees pizza and seafood chains as both having great potential in 1988. But both areas have their downsides.

"Pizza in general will continue to be popular and grow, but I think that the concept of delivery is going to begin to be re-evaluated," says Fairfield, who is based in St. Louis. He adds that companies know people want pizza delivered, but the companies are trying to determine whether delivery is economically feasible.

Fast-food seafood—whether fried, grilled, broiled or baked—has outstanding growth potential in the Great Lakes area, Fairfield says. Shoney's should strongly consider expanding its Captain D's concept into the North Central, where Long John Silver's is already in position to take advantage of this growth, he says.

The West, and especially California, is being overrun by frozen yogurt, *pollo* (charbroiled chicken) and drive-thru-only burger stands. The flood of frozen yogurt should subside, says Janet Lowder, who from Los Angeles researches West Coast restaurant activity for Laventhol & Horwath, but the other two should continue to show growth.

"The yogurt group will show slower

growth than it has in the past couple years, but only because everybody has already jumped on the bandwagon," says Lowder. Find a strip shopping center in the Southwest, and Lowder says you're bound to find a frozen yogurt store. She expects the bigger West Coast companies—TCBY, J. Higby's, Heidi's and the Hardin Group's Penguin's Place—to begin squeezing the smaller operators out of the market.

Lowder says El Pollo Loco, owned by Denny's, is looking into catering with a mobile unit to expand business rather than trying delivery. "The key to chicken delivery," says Lowder, "is for a manufacturer to come up with a super packaging product for chicken."

While she doesn't see 1988 as a good year for traditional burger chains, she believes that the drive-thru-only burger chains such as In'N Out Burgers will grow. The traditional burger chains have the potential to do better if they diversify with products such as the chicken sandwiches at Carl's Jr.

Many of the patterns in the South are similar to the rest of the country, says Steven Rockwell of Alex. Brown & Sons, Baltimore. And in the same way, some patterns are appearing in both full service and fast food.

"There is a much greater demand for self-service, all-you-can-eat concepts," says Rockwell. The entire steakhouse segment of the market has gone to this, and now the same thing is happening in fast food at Rax and Wendy's. While the fast-food entries are not as varied as those in the steakhouses, there is a similar customer perception of high value.

"The consumer, based on what is going on in the steakhouse segment, is saying this is what they would like," he says. "They want the greater variety, they want the ability to portion themselves, they want the ability to return for seconds or thirds."

**Yuri! Vuht vihl McDonald's do?**

Learning what the major chains plan to do in 1988 is a little like the Soviets trying to discover our national secrets. (Actually, given the number of national security breeches reported in newspapers, the Soviets probably have an easier job.) However, the steps taken during 1987 by the five largest fast-food chains—McDonald's, Burger King, Kentucky Fried Chicken, Wendy's and Hardee's—give a clear indication of what each is doing to improve sales during 1988.

After years of testing, McDonald's rolled out its packaged salads. "It was your typical McDonald's 10-year, 4,000-unit test," said Chairman Fred Turner after the company's 1987 annual meeting. As evidenced later in the year by its Mac Tonight character, McDonald's is working to build sales after 4 p.m. as a way to drive sales in the country that is closest to reaching McSaturation. But that doesn't mean the company itself is on the verge of stagnation.

When Michael Quinlan was named the new corporate chief executive officer, a position he assumed in April 1987, he said that the company had just scratched the surface of international

**Kentucky Fried Chicken**

## WHAT'S NEW FOR 1988

■ "The consumer will be under pressure in 1988. As a result, consumer spending will either slow or, in the worst case, it will actually go down a little bit. I think the companies that will do the best are those that have the greatest ability to market, to advertise and to have the greatest penetration in a particular area."
*—Steven Rockwell*

■ "You have a lot of emphasis on service in the high-end restaurants, and I think you're going to see it a lot more in fast food. The 16- and 17-year-old employees are going to be trained to be able to talk about world affairs, about what they learned in their civics class and not to be so mechanical."—*Janet Lowder*

■ "I think delivery is still a question mark. I know people say delivery is the trend. Actually, it is the trend to *test* delivery. I think that in the long run, the only way you'll see delivery is if it becomes a pricier service—just like room service. People understand that when you buy room service, you're paying a lot for the convenience."
*—Jay Fairfield*

■ "Expansion still is going to be there, but I see a cutback in expansion, not accelerated expansion. I just think it's going to be a lot more difficult to get the financing than it once was."
*—Leslie Steppel*

# 1988 ANNUAL FORECAST

**FAST FOOD HAS FIRM GRIP ON 30% OF MARKET**

In 1980, the fast-food segment accounted for slightly more than 20% of the total foodservice market. Steady growth in the early portion of the decade saw that percentage increase nearly 50% by 1986. That growth is now at a standstill as fast feeders can claim a solid 30% of the market as their own.

| | |
|---|---|
| 1988* | 30.06% |
| 1987** | 30.06% |
| 1986 | 30.03% |
| 1985 | 29.21% |
| 1984 | 28.87% |
| 1983 | 26.73% |
| 1982 | 24.78% |
| 1981 | 21.51% |
| 1980 | 20.10% |

*forecast **preliminary

Source: *Restaurants & Institutions* Annual Report issues, 1980-1988.

operations. It is a safe bet that significant unit growth in the foreseeable future will be at international locations, where average unit volumes consistently exceed the corporatewide average of about $1.4 million.

Burger King has hit upon a successful formula of rotating its product promotions. To competitors, this rotation might appear more as a drive-in horror movie called "Attack of the Killer Bs": Burger Bundles, Breakfast Bagels, Bull's-Eye Barbecue Burger.

"They do have a strategy of rotating products and marketing those new products pretty aggressively as they introduce them, and then pulling them out and starting over with another one," says Rockwell. "I think it is working."

Backing up each new promotional product release with distinctive advertising, Burger King is generating sales excitement every one or two months. No more long-term albatross for Burger King (sorry, Herb, it's just hard to forget you). Even if a product sputters, it is scheduled to be gone before it can inflict deep wounds.

Unlike the burger chains, Kentucky Fried Chicken never had a problem with dinner-time sales. But lunch is another question. Hence comes its product of the future: Chicken Littles. It's difficult to make a lot of money on a 39-cent sandwich, but KFC knows that few people grab a one-course midday meal. With generous profit margins on french fries and soft drinks, it is a safe bet to say KFC has a winner.

This bet is even safer to make when examining the competition's reaction to Chicken Littles. Both Popeyes Famous Fried Chicken and Bojangles' developed a similar product almost immediately.

Wendy's is in dire need of a hit in 1988, and it might have it with the SuperBar. When people stop, stare and simply say "Wow" upon first seeing the three-section food bar, and when people have to wait for a table during the lunch hour (both common occurrences during the SuperBar's first few weeks in the Chicago area), one knows this could be something special.

If the SuperBar changes the focus of Wendy's from hamburgers to all-you-can-eat buffet, it might force Wendy's to remove the "Old Fashioned Hamburgers" section of its logo; it's a change corporate management will be happy to make if the SuperBar rejuvenates this struggling giant.

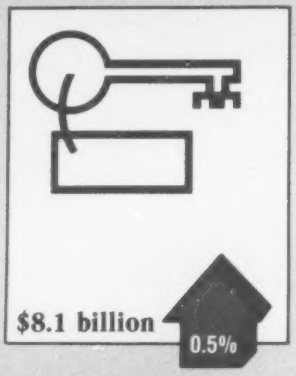
Listing Hardee's as the nation's fifth largest fast-food chain and fourth largest burger chain might soon be a thing of the past. Hardee's officials say its sales forged ahead of Wendy's during the first six months of 1987 and they are confident it will be ahead of Wendy's for the year. There's no sign that Hardee's will stop here.

"We're going to continue to see Hardee's charge on its competitors in the burger area, especially into Burger King's turf," says Fairfield. "Hardee's, in the customer's eye, is going to supplant Wendy's and possibly begin to supplant Burger King as a better fast-food hamburger place."

***—Brad Stratton***

**Burger King**

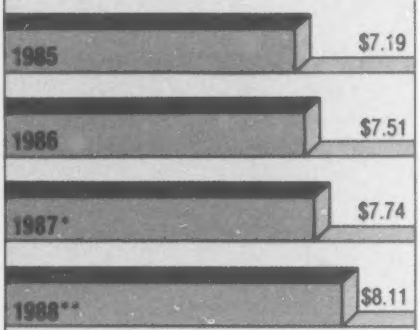
# 1988 ANNUAL FORECAST




**A SLOW-GROWTH YEAR FOR HOTELS**

*R&I* predicts 0.5% real growth for the lodging industry in 1988, down from 1.1% in 1987. Occupancy rates will remain stable, at about 64%, but construction is estimated to decrease by 5.4%. This will, in the long run, bring room supply into alignment with demand. Hotels are getting bigger —the number with 100 or more rooms grew by 5%.

(food and non-alcoholic beverage sales in billions)




**1988 units: 23,200**

**1988 market share: 3.9%**

**1988 beverage alcohol sales: $3.5 billion**

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*preliminary **forecast

■ **LODGING**

## As the slowdown continues, hotels will count on food and beverage to generate excitement.

A sluggish market for hotel rooms should stimulate interest in a relatively neglected profit center: food and beverage operations. "Given modest growth in occupancies and room rates, food and beverage will become a much more dynamic area," says Jonathan Denn, chief executive officer for Treadway Inns, a regional chain in the Northeast.

Chicago consultant Maximilian Eidlhuber agrees: "The more food and beverage a hotel has, the more excitement it can create and the more successful it will be."

**Segments to bet on**

Even though overall industry growth will be slight, some segments will shoot ahead of others. Most observers agree that the economy/limited service segment will continue to add new properties at a faster pace than anyone else. Specifically, Rich Conti of Laventhol & Horwath puts his money on middle-priced all-suites. To date, most of these have sidestepped foodservice, viewing it as a drain on profits, but a few are beginning to respond to customer demand for on-premises restaurants.

Airport hotels will continue to do well, although they may lose some of their luster if the airlines back off from the deep discounts of the past year. "Fantasy resorts" will also prosper. "It's the yuppie factor at work," comments Randall Smith, an analyst for Smith Travel Research.

**More women, foreigners**

Expect to see more women and foreigners in hotel restaurants next year.

Women now constitute more than one-third of frequent travelers, and the percentage hasn't stopped climbing. "Women will continue to influence menus and hotel design," says Juergen Bartels, president of Carlson Co.'s hospitality group. "It's no surprise there's less drinking, lighter meals, an upswing in the popularity of chicken and fish."

As for foreigners, the decline in the dollar's value will make the United States a highly attractive travel bargain. Hotel executives expect Japanese and European tourists, in particular, to trek to their establishments in greater numbers. Unless they learn to love all-American specialties, this could mean more sushi and *boeuf bourguignon* on hotel menus.

Of whatever sex or nationality, the value-conscious customer also will be more visible in 1988. That doesn't necessarily translate to "cheap"—during 1986, restaurant expenditures for midscale hotels dropped more than for upscale hotels (by 6.7% and 0.5%, respectively).

It does mean that customers will become still more astute at recognizing quality and attaching a price tag to it. "Hotels that bank purely on image are going to have a problem. In restaurants, ambiance without product quality won't sell," says Walter Staib of Omni Hotels.

**Stepped-up competition**

During 1988, hotels will try harder to differentiate their restaurants from those of competitors. "Free-standing restaurants, in general, have more personality. You go into 20 different brands of hotels and you won't see

**Checker's Cafe, located in Treadway Inns, converts into a dance club.**

# 1988 ANNUAL FORECAST

## WHAT'S NEW FOR 1988

- Economy/limited service, all-suites, airport hotels and fantasy resorts will perform better than the average.
- All-suite hotels will add low-sugar items to their continental breakfast.
- Conversions and renovations will be far more common than new construction.
- Female business travelers will boost demand for suites, concierge lounges and lighter menu items.
- Hotels will economize by scaling back the size of restaurants and banquet rooms, or placing cafes and lounges in lobby areas.
- Non-smoking rooms will become more popular.
- Some restaurants will combine theme-type grazing menus for residential customers with more traditional menus for business travelers.
- Capitalizing on concern about drunken driving, hotels will promote weekend packages that encourage guests to stay overnight after festive occasions.

much difference in the restaurants. But that's beginning to change," says Denn.

Learning how much the concept counts, hotel operators will, increasingly, replace the all-purpose restaurant with *brasseries*, sushi bars, takeout counters, pastry kiosks in lobbies and casual dining spaces that convert into nightclubs by night. Separate signs, entrances and telephone lines will help entice outside traffic; ideally, says one consultant, the restaurant customer won't even realize he's in a hotel.

**Winning the amenities war**

The No. 1 amenity may be great food and beverage service, but hotels arming themselves for the amenities war also will install in-room safes, reclining chairs, hair dryers, personal computers and FAX machines.

Well-stocked mini-refrigerators will become a standard piece of room equipment in 1988. In-room microwaves coupled with vending machines stocking frozen entrees will also be popular. Some of this may cut into room service sales, but hotels can make up for the loss by extending the service to adjoining apartment buildings and business offices.

**Joint ventures—hazardous?**

Joint ventures between restaurant and hotel chains have been much touted as the wave of the future. Indeed, this has worked for some chains with little expertise or interest in foodservice, especially those in mid-priced segments. Five Embassy Suites properties, for example, house modified Steak & Ale outlets. Days Inn and Wendy's have teamed up at more than a dozen locations.

Nonetheless, experts consulted by *R&I* expressed doubts that bringing in a restaurant partner will be the answer for a majority of hotels.

"I've been involved throughout my professional life in lease-type arrangements, and I've never seen one work to the benefit of both operators," says Denn. "The problem is that the hotel operator loses control." He thinks hotel operators who keep the reins in their own hands will have the competitive edge.

Despite the hotel industry's food-and-beverage identity crisis, most executives are optimistic about 1988. "If it's anything like last year, I'm looking forward to it," sums up Staib.

***—Toni Lydecker***

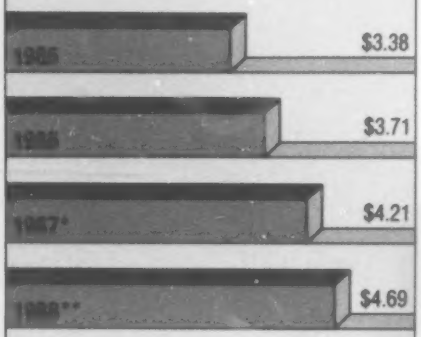
**Aurora is a restaurant in the Radisson Hotel South and Plaza Tower, Bloomington, Minn.**

# 1988 ANNUAL FORECAST

**TAKEOUT, CONVENIENCE GAIN IN IMPORTANCE**

C-stores sales, spurred by consumers in search of faster fast food, will rise and continue to nibble at traditional fast-food sales. Grocery-store operators see in-store delis and salad bars growing rapidly and have adjusted their focus accordingly.

(food and non-alcoholic beverage sales in billions)




**1988 units: 63,800**

**1988 market share: 2.3%**

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*preliminary **forecast

■ **CONVENIENCE & GROCERY STORES**

## Takeout drives supermarket, c-store sales as changing life styles call for ready-to-eat meals.

Hordes of grocery shoppers, spoiled by fast food's cash-and-carry convenience, pass by even the easiest-to-prepare groceries on supermarket shelves and spend their money on takeout food.

In takeout lies the bulk of 1988's sales, supermarket operators agree. "Grocery sales will remain flat," says a spokesman from Publix, a supermarket chain with headquarters in Lakeland, Fla. Takeout is a growth area, he says, because changing life styles leave consumers with neither the time nor desire to cook.

As takeout begins to cannibalize sales of packaged groceries, supermarket operators are spending more money on full-service delicatessens, and fresh fish and produce sections. Publix sells hot entrees such as lasagna, beef stew and roasted chicken by the pound in its full-service delis. The chain is testing salad bars in several of its 333 stores.

The stores, scattered throughout Florida, cater to a wide variety of consumers, some of whom are just getting used to the takeout idea. "We're seeing more senior citizens, who are beginning to acknowledge the price/value benefit of hot takeout food," the spokesman says.

Vons, El Monte, Calif., also sees takeout as a growth area. About 10 months ago, the company started sending chefs to its stores to develop takeout recipes and teach those recipes to store cooks. The program is now in place in 35 of the company's 200 stores.

"The key is to offer a quality product that looks good and tastes good," says Bill Hyde, vice president of specialty foods development. "The chefs start with the same basic recipes people use at home, and the customer ends up with a quality product." To control quality, Vons prefers to sell cold or heat-at-home entrees, rather than entrees that are kept hot at the store. Cold vegetable salads are popular, Hyde says.

Hyde does not necessarily agree that takeout sales cannibalize grocery sales. "I'd be hard pressed to prove that," he says. "We generally see sales increases all around."

Convenience stores, one of the most talked-about industry segments last year, continue to grow, thanks to in-

*continued on page 78*

**Grocers expect takeout foodservice sales to rise while grocery sales will remain flat.**

# 1988 ANNUAL FORECAST

**WHAT'S NEW FOR 1988**

- The grocery/c-store segment, which grew 9.4% last year, is tapering off slightly: *R&I* sees 7% real growth, the healthiest of all the segments.
- Increased demand for ready-to-eat meals continues to spark growth in non-traditional foodservice outlets. And the convenience of one-stop shopping attracts different types of customers.
- Joint ventures between c-stores and fast-food companies may be waning: Southland stopped its tests with Hardee's, and Circle K made an agreement with Pantera's, but now says the deal is not "economically sound."
- C-store operators expect sales to increase as store managers become more accustomed to running beverage stations and sandwich counters.
- Grocery sales will remain flat, due to increased interest in supermarket's takeout sections and consumers' unwillingness to prepare food.

creased demand for convenience. "Convenience stores are easier to get to, they're in more neighborhoods, and customers can do a lot of things under one roof," notes Fred Wintzer, vice president at Alex. Brown & Sons, Baltimore. Speedy-service breakfast programs and a wide variety of snack items are helping c-stores nick fast-food sales.

Wintzer foresees good growth for the segment, regardless of the turns the economy might take. "Convenience stores thrive on sales of six-packs, cigarettes and soft drinks," he says. "Sales of those products don't slow down in a recession." He warns, however, that the c-store market is almost at the point of saturation, and segment innovators, such as Southland Corp., are cutting back on expansion. Southland's Thompson family took the company private last summer and is expected to stop building new stores and sell about 1,000 existing stores.

As Southland cuts back, c-store watchers' eyes are turning toward Circle K Corp., the Phoenix-based operator of about 3,600 convenience stores. Stephen Schwitalla, senior vice president of foodservice at Circle K, says the company plans on 25% growth in foodservice sales. Part of this growth will come from the addition of 150 new stores; part will come from aggressive promotion of foodservice programs. Circle K's fast-food sales were $190 million last year, and are expected to reach $240 million this year.

Circle K plans to expand its Thirstbuster self-service soft-drink program and its hot dog program. Hot dogs are now available in 75% of the units and will be available in 95% of the stores by spring. About 80 locations in Florida and Texas offer pizza, whole or by the slice, baked on premises. Schwitalla says the test is doing "respectably well."

Brisk breakfast traffic has prompted the company to promote Dunkin' Donuts and other branded doughnuts, which are delivered to the convenience stores from the doughnut stores every morning. "The doughnuts attract a different kind of customer than we usually see," says Schwitalla.

Why? In Circle K's biggest markets, it is easier for customers to find a Circle K than a fast-food store. "We outpace our nearest competitor in store locations by 10 to one," he says, noting that the company operates 300 stores in Phoenix and 275 in Houston. "Our high visibility is why we're doing as well as we are."

**The c-store sales surge continues.**

While selling brand-name doughnuts in the stores seems to work, Circle K isn't sure about joint ventures that put a fast-food unit into a c-store. The company made such an agreement with Pizza Inn, Dallas (now owned by Pantera's Pizza, St. Louis), but has yet to open the first Pizza Inn/Circle K store. "We didn't feel the plan was economically sound," says Schwitalla, adding that Circle K still may act on the agreement.

Schwitalla says Circle K management does not foresee a recession, but admits that a severe economic downturn would curtail sales growth to 10% to 15%.

Other c-store operators question the effect of a recession on c-store sales, which are typically low-ticket. "We see growth no matter what the economy," says Patty Hohag, director of foodservice at SuperAmerica, Bloomington, Minn. "If there's a downturn, our good price-value will draw a bigger customer base. If the economy stays healthy, our customers will stay with us because of the convenience factor." Better operational controls, the result of more experienced store personnel, also will contribute to growth.

Although SuperAmerica's expansion will slow in 1988 (10 to 15 new stores compared to 25 last year), the company plans to expand its SuperFast program into existing stores. SuperFast is a completely self-serve island offering soft drinks, ice cream, baked goods, frozen hamburgers and premade sandwiches.

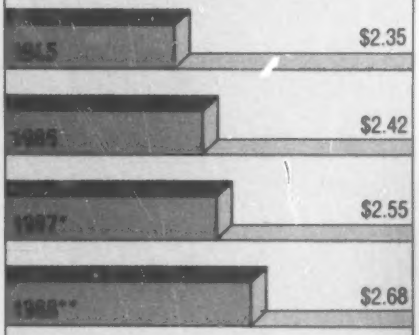
***—Lisa Bertagnoli***

# 1988 ANNUAL FORECAST

**INCREASE IN SPENDING MAY BUOY RETAIL SALES**

Even though mainstream retailers have been shifting their focus from foodservice to merchandising during the past several years, in-store foodservice sales continue to rise. Retailers who haven't abandoned foodservice are experimenting with smaller, limited-menu concepts.

(food and non-alcoholic beverage sales in billions)




**1988 units: 28,800**

**1988 market share: 1.3%**

**1988 beverage alcohol sales: $3 million**

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■ **RETAIL**

## In-store foodservice sales are expected to rise slightly, in sync with consumer spending.

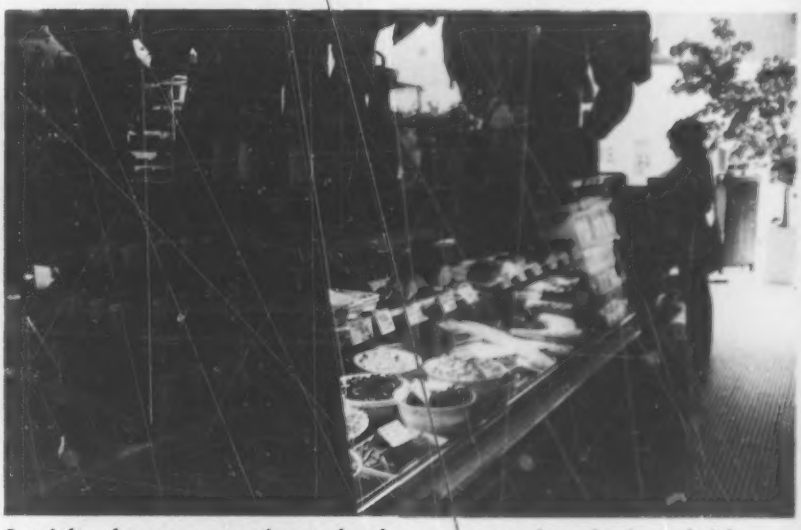
Most department-store managers once viewed foodservice as a customer draw. Now they consider it at best a necessity and at worst, a hindrance.

The exceptions are stores such as Neiman-Marcus, which have elevated in-store foodservice to the level of fine-dining restaurants and upscale food boutiques. These stores, which can depend on a flow of affluent customers to boost sales, and retailers, who offer basic snack bars, are expected to lead the sales growth for the retail segment of the industry. *R&I* predicts real growth (factoring out inflation) of 0.9%. Retail operators agree.

■ "We don't expect a boom," says Bob Laird, vice president of foodservice at McCrory Stores, York, Pa. McCrory's 325 stores offer foodservice ranging from snack bars to cafeterias; the company also operates several Roy Rogers restaurants. Although McCrory does not plan to expand foodservice this year, the company is experimenting with several new concepts, including a diner, top-it-yourself hot dog stand, and hot and cold food bar.

■ Specialty stores offering takeout and eat-in coffee, pastries and sandwiches will prosper. Several chains, including Starbucks Coffee in Seattle, Gloria Jean's Coffee Bean in Chicago and Oh! La La in San Francisco, have picked 1988 as their year to grow. Explains Robert Moran, president of Oh! La La: "We're bullish because our basic product, coffee and pastry, is something people won't give up, even if we go into a recession. Our average ticket is about $1.40, and it's the big-ticket items that go during an economic downturn."

■ The convenience factor will keep sales going for upscale takeout grocery stores, says Charie MacDonald, chef and owner of Beautiful Food, Winnetka, Ill. "The best example is working women who don't have time to do everything," she says. "By the '90s, all the pressure and guilt will be gone." MacDonald's customers, who hail from affluent Chicago suburbs, are buying more hors d'oeuvres, hot entrees, individual-sized desserts, and demanding variety and service, she says. MacDonald projects a 10% increase in takeout sales. Grocery sales, however, will remain flat. "No matter how simple, people just don't want to prepare things," notes MacDonald. —*L.E.*



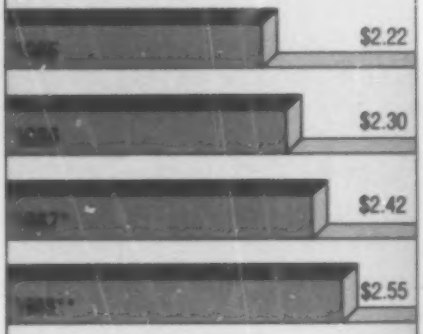
**Specialty shops are counting on loyal customers to keep business brisk.**

# 1988 ANNUAL FORECAST

**THEME PARKS SET GROWTH PATTERN**

Walt Disney Co. witnessed double-digit increases in sales in the past two years, accounting for nearly 10% of the entire recreation segment and leading the growth trend. Attendance at spectator sports has dropped in recent years, but admissions to motion pictures are up, as are snack purchases.

(food and non-alcoholic beverage sales in billions)




**1988 units: 25,000**

**1988 market share: 1.2%**

**1988 beverage alcohol sales: $382 million**

■ **RECREATION**

## Sports stadiums and amusement parks add ethnic-food snacks to concessions.

Projections for the diverse recreational foodservice segment are hard to call. *R&I* notes that Walt Disney Co.'s food sales have climbed over 10% a year for the past three years. Spectator sports, however, witnessed a 4.4% decrease in sales in 1986, and *R&I* estimates that sales will continue to drop by 0.5% and 1.5% for 1987 and 1988, respectively. And yet, the increase in vacation intentions for 1988 forecast by *R&I* bodes well for theme parks and other recreational destinations.

In other news affecting the recreation segment:

■ In addition to the hot dogs, peanuts and cotton candy traditionally consumed at sports stadiums, Americans enjoying their favorite pastimes are scooping up nachos, pita sandwiches and other ethnic-food snacks.

■ To appeal to families, Wrigley Field, Chicago, and other stadiums have designated no-drinking "family sections."

■ Theme parks are placing a greater emphasis on marketing their food to appeal to adult vacationers. Parks with international themes such as Walt Disney World Epcot Center, Lake Buena Vista, Fla., and Busch Gardens, The Old Country, Williamsburg, Va., provide a world of options for eating. Each section of their parks is designed to represent a different nation and each contains a restaurant serving ethnic food. The restaurants offer a wide range of prices and service styles—from cafeteria to full service.

■ Destination package is the buzz phrase for marketing theme parks outside California and Florida, the states leading in American tourism. Busch Gardens, for example, promotes Virginia's Tidewater Area as a vacation destination, citing nearby Jamestown Island and other attractions.

■ After declining 11.4% in 1985, motion picture admissions rose 3.5% in 1986 and are expected to rise 6.9% and 2.2% in 1987 and 1988, respectively, according to the U.S. Department of Commerce.

*—George Curran*

**Busch Gardens, The Old Country, attracts the adult market by promoting its foodservice.**

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*preliminary **forecast

# 1988 ANNUAL FORECAST

**GROWING WORK FORCE BOOSTS SEGMENT SALES**

A major rise in civilian employment, the biggest since the decade began, partly accounts for the projected sales increase of 1.2% in 1988. The number of employed climbed 2.9% in 1987, and will hit 3% in 1988. The trend away from blue-collar accounts continues, as contractors are opening more office building dining facilities.

(food and non-alcoholic beverage sales in billions)

**1988 units: 25,000**

**1988 market share: 7.1%**

**1988 beverage alcohol sales: $48 million**

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■ **EMPLOYEE FEEDING**

## Cafeteria meal subsidies are on the way out; catering and takeout are on the way in.

The days of subsidized company cafeterias are going the way of prop planes and electric cars. "Within five years, employee foodservice will be profitable," forecasts Phillip S. Cooke, executive director of the Society for Foodservice Management. Few in the industry disagree with this statement. In fact, many experts think that a good number of the self-operated B&I foodservices, now about 20% of the market, will soon be turned over to contract companies —in an attempt to save money.

There will also be higher quality and more flexible foodservice for a decreasing-in-number blue-collar clientele, in an attempt to cut down on turnover and increase productivity. Some industry authorities even expect cafeteria meals to be subsidized—a rarity in the past. In fact, most trends that will be seen in this market segment during the upcoming year will, in some way, be a result of financial concerns on the part of company managers.

White-collar customers will probably be provided with even more upscale meals, so they will conduct more business meetings in-house instead of going outside. This is a result not only of tax law changes, but also a concerted effort to maintain better control over meal quality and service. Says one company executive, "If I'm trying to seal a $300 million deal, the last thing I want is shoddy wait service." As a result, many foodservices are hiring trained chefs to upgrade the quality and presentation of all meals.

Most foodservice departments, whether they are self-operated or run by a contract company, will also continue to look for other revenue sources. These profit centers are ranging from frozen takeout meals to on-premises stores and boutiques offering everything from video tape rental to jewelery and other fashion accessories.

"Management is concerned that to remain competitive with overseas products, we've got to keep employees 'on-campus' and efficient and productive," comments an independent foodservice operator. "Management would rather

*continued on page 90*

**ARA's Restaurant Collection is midway between a vending-only operation and a full-scale cafeteria.**

# 1988 ANNUAL FORECAST

**WHAT'S NEW FOR 1988**

- Meal subsidies are out at white-collar employee-dining operations. Today's buzzwords are profit and loss.
- More aggressive and creative merchandising efforts are the keys to success.
- The shift is back to basics with a return to scratch cooking.
- Cook-chill and pouch cooking methods will come under closer scrutiny.
- Smaller, energy- and labor-efficient kitchens are being installed with an eye toward multipurpose equipment.
- Thanks to computerization, more cashier systems and charge card programs are being tied into payroll plans.
- Predictions are that coinless vending will be the new wave of the future.
- Video tape rental stores, shops and boutiques on cafeteria premises could become viable profit centers.

employees did their errands, such as dropping off and picking up their cleaning, in the building rather than using their lunch hours. And, let's be serious, management isn't adverse to collecting fees for providing such services." (In most instances, these non-foodservice-related services are run by local, commercial establishments.)

While takeout works for some, it doesn't for others. At self-operated Eastman-Kodak headquarters in Rochester, N.Y., foodservice director Bill Lembach reports that the company bakery sells 500 to 700 fresh pizza pies for takeout on an average Friday.

But Joe Fassler, president and chief oeprating officer of Greyhound Food Management Inc., doesn't hold much hope for takeout because to be successful, cafeterias must be able to sell signature items that are better than those offered any place else. Otherwise, he says, employees won't buy the products. And, he adds, keeping cafeterias open after 5 p.m., when employees would tend to make purchases, is costly.

Many in this segment also think that there will be more centralized processing, too. In January 1988, for example, Kodak will unveil a new, 54,000-square-foot, state-of-the-art food processing center, a totally integrated system incorporating meat processing, baking, vending supply, hot and cold food preparation and an experimental cook-chill process that holds prepared foods up to 45 days.

Nutrition will also remain a concern in the upcoming year. Companies are becoming more and more aware of the huge cost of health insurance and illness to their bottom lines. For most foodservices, this means a back to basics in terms of food quality. Michael Barclay, vice president of Birmingham, Ala.-based Southern Foodservice Inc., cites scratch cooking as the current trend and wave of the future.

Although employees may have to pay higher prices for these meals, most are willing to do so, discovering, in many instances, that their in-house foodservices now provide food and cafeteria environments that rival many local coffee shops and restaurants.

David Hatch, vice president of marketing for ARA Services' Business Convention and Personal Dining Group, says his company also is cooking from scratch. "We want to get away from frozen hockey pucks and give our customers good, 8-ounce hamburgers," he says.

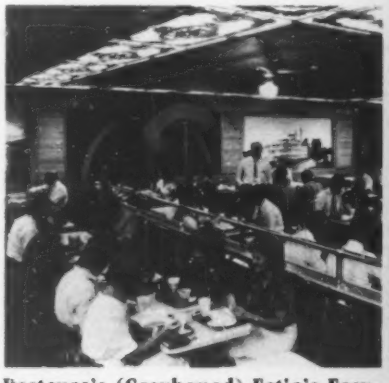
Flexibility will also be key in the B&I segment. ARA is filling the gap between its vending and cafeteria operations with a concept called the Restaurant Collection, a series of four modular systems designed to fit separately or together in any size space or configuration. This building-block approach allows an operation to be expanded from a quick-service to a casual, sit-down system if an area must be enlarged or customer counts increase. The units include hot and cold serving counters, soup and salad bars, grill and fry lines, and beverage stations.

Pouch cooking may soon make inroads into employee-feeding operations. The advantages, manufacturers claim, are less shrinkage, longer shelf life, fast cooking times and reduced labor costs.

Outside catering will also continue to play an important role as a revenue source. Many office buildings and banks, equipped with large modern kitchens, stand idle on weekday evenings and weekends. ARA, which introduced a nationwide retail catering operation called Classic Fare in Cincinnati two years ago, is going head-to-head with local caterers. The company's 40 vending kitchens from Philadelphia to San Diego, once used only to support vending operations, are being prepped to take on catering contracts full tilt.

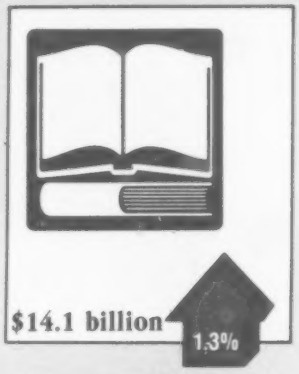
An additional change will be more creative and aggressive merchandising and marketing, particularly at the unit level. And the unit level, after all, is where the law of profitability starts.

***—Barbara Magan Dawson***



**Restaura's (Greyhound) Eatin's Easy**

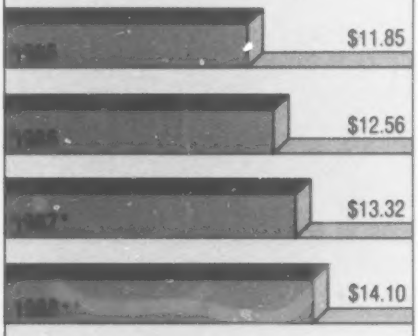
# 1988 ANNUAL FORECAST




**FUNDING CUTBACKS SEEM INEVITABLE**

Even though food sales in schools are expected to increase, more of the money used to purchase these food items will be coming from students and their parents—not the government. A decrease in government support may well mean students will be faced with far fewer meal options, though few foodservice directors expect a return to the "no-frills" lunch of yesteryear.

(food and non-alcoholic beverage sales in billions)




**1988 units: 89,300**

**1988 market share: 6.8%**

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■ **SCHOOLS**

## Districts fear turbulent economy and cutbacks will hurt school lunch programs.

"The kids attending our schools seem to have more money in their pockets," states a school foodservice director from a large Midwestern district. "In September 1987, our income was up $150,000 over September 1986; that's a big increase for us. But given the turmoil in the economy right now, I can't see that situation continuing."

"We've been lucky the past two years," says a director from the Southeast. "We've had no cuts in lunch program reimbursements; in fact, there's been a slight increase. But given the budget deficit and the situation on Wall Street, I bet we're going to have to mount a real serious lobbying effort. We could well be in some trouble. If the situation gets real bleak, we'll be back serving no-frills lunches to kids. That's not all bad—it was the original intention of the program. But we've come so far since then."

Others think that a "no-frills" program will mean selections of almost entirely fast-food items.

What else do the probable cutbacks mean to school foodservice programs?

■ More pre-portioned items. Although offer-vs.-serve options will increase, directors expect to wrap more menu items. Comments one veteran, "There's just no supervision in schools anymore and self-service bars are being abused."

■ More attention paid to employees. Many school foodservice directors are finding it difficult to hire part-time help. "We thought we were so smart, hiring part-timers to save on benefits, but that tactic has backfired," says a director from the Northeast. "I'm willing to kiss the feet of new employees if that's what it takes to keep them. To have any stability in our work force, we're going to have to work more cooperatively with employees."

■ Closer working relationships with manufacturers. Most school foodservice directors think that the public and government will be closely examining the nutritional content of school meals and, as a result, manufacturers will have to upgrade the quality of offerings available to schools. "We've got to get the fats out of foods, put vitamins in french fries, add appropriate seasoning to foods—whatever it takes to provide kids with nutritious foods that they'll eat," says a disgruntled director. "The government is looking for places to cut the budget; I think we're being set up. There will be a lot of investigations and negative press stories this year."

■ More ethnic and finger foods. Mexican and even Greek foods are readily accepted by school children today and more ethnic finger foods—gyros, for example—are expected to make their way onto school lunch menus.

■ Increased testing for contagious diseases. "The fear of catching AIDS has made everyone more sensitive to the testing issue," says one director. "I would heartily support testing. I expect it to be mandatory very soon."

■ Sophisticated and integrated marketing programs. Directors concur they'll become more involved with communities and the entire education system. States one, "It's the responsibility of all of us—and I'm not just talking about school lunch employees—to try to keep kids in school, away from drugs and consuming healthful meals until they grow up enough to make an honest-to-goodness adult decision."

***—Susie Stephenson***

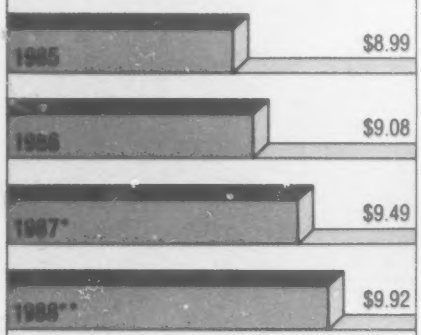
**How much choice will students have?**

# 1988 ANNUAL FORECAST

**NON-PATIENT MEAL REVENUES INCREASE**

The modest increase projected in hospital foodservice sales will most likely derive from non-patient meals. DRGs have meant shorter patient stays and sicker patients—many more are on nutritional supplements than in years past. However, foodservice directors and dietitians are becoming more competitive with commercial restaurants.

(food and non-alcoholic beverage sales in billions)




**1988 units: 6,890**

**1988 market share: 4.8%**

**1988 beverage alcohol sales: $22 million**

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■ **HOSPITALS**

## Marketing, promotion efforts increase as directors anticipate "son of DRGs."

"All anyone is worrying about these days is 'glitz,'" says a hospital foodservice director who works in the Northwest. "We've got to get back to basics. We can't forget that patients are our *raison d'etre*."

"Fewer than 30% of our meals go to patients," counters a different foodservice director. "The other 70%—cafeteria meals, catering and such—are the meals that put dollars in our coffers. Now, I'm not saying we should ignore patient meals, but economics dictate patients no longer should be the focus of our attention."

Why such diverse opinions about the future of hospital foodservice?

According to most of the hospital foodservice directors and dietitians contacted by *R&I*, the confusion is a direct result of government action—or lack thereof. "We know what DRGs have done," says a health-care consultant. "Now, everyone is waiting for 'son of DRG.' Until the government knows how big the deficit will be and the size cuts that will be made—and, not incidentally *where*—no one is quite sure what's going on in terms of reimbursements. For instance, some people think the drop in patient census has bottomed out. Others just aren't convinced."

Regardless of where they stand on the patient/non-patient meal issue, most hospital foodservice directors see a need to generate new sources of revenue (or increase the amount of revenue earned from existing services). Many also agree that hospitals must further differentiate themselves. "No longer will hospitals try to be all things to all people," explains a director from the East. "We'll see much more sophisticated marketing, particularly in areas with a heavy concentration of health-care facilities—Minneapolis and Seattle, for example. Hospitals will concentrate on performing only those services that they can do well—and at which they can make money. They'll further define their audiences and refine their marketing efforts. We went through a stage where general hospital advertisements abounded; they were on buses, highway billboards and even in baseball stadiums. We'll no longer see such a 'shotgun' marketing approach."

Regardless, foodservice will be included in many marketing efforts. Research shows that the first time patients enter a hospital it is usually the result of

**Labor shortages will result in food-production system changes.**

# 1988 ANNUAL FORECAST

**WHAT'S NEW FOR 1988**

- A lack of qualified and dedicated employees at all levels. Contract companies will likely benefit from this trend—enticing employees with promises of careers, not just jobs.
- The wasteland of trained (or trainable) employees will probably result in implementation of more cook/chill systems.
- Contract companies will make inroads, touting their ability to provide the necessary basics—and at a fair price.
- An increase in home health care. Nutritional support provided in homes prior to and following hospitalization will be critical to patients' well being. (Some hospitals now produce their own modifed diet meals to go.)
- Lighter patient meals. Patients will demand—and receive—more healthful meals that are low in fat and salt yet still tasty.
- More creative patient services. One director plans to offer downscaled room service, allowing patients—and nurses—to order pizza after meal service.
- More concern for cafeteria customers' dining experiences, including noise and light levels.

a doctor's referral or because the hospital is noted for performing a particular service very well. The second time, however, patients' choices can be dictated by prior foodservice experiences.

Following are other changes hospital foodservice directors expect to occur during 1988 and the years beyond.

**Patient meals**

More standard, cycle menus will be developed. Patients are finding the restaurant-style menus that have recently proliferated on patient trays boring. "Even if they choose a different meal for a week," comments one director, "patients find a menu dull if they look at it for seven consecutive days."

In addition, directors predict a change in the scope of menu offerings. Since patients will be more debilitated and their hospital stays shorter, most foodservice directors and dietitians expect the use of supplements and formulas to rise.

Two-tier meal programs also are on the horizon. As cost constraints tighten, patients will be provided with "no-frills" foodservice. However, upscale meals will be available to those patients (and guests) who can—and want to [illegible]hem. (VIP suites will also be used as a marketing tool to attract *clients*, as patients will be called.)

**Cafeteria meals**

Look for more flexibility here. Pizza might still be the most popular menu item in hospital cafeterias, but one director claims, "We've got to be able to change our operations to offer what's in right now. Drum-style chicken pieces have come and gone, as has stir-fry; Mexican is on the wane.

"If the economy continues to tighten, we'll be serving more meat and potatoes. Customers will want meals that not only nourish them but fill their bellies."

Ethnic meals also will play a changing role. Mexican, Italian and Chinese menu items won't be the focus of theme events; rather they'll be incorporated into daily menu selections.

Foodservice directors say they will step up marketing efforts to boost cafeteria traffic. "Cafeteria customers will be more tight-fisted with their meal dollars," laments one director. "Unless we offer foods that people want and promote the heck out of them, our customers will go outside for meals."

**Two-tier patient meals will be provided—no frills and gourmet.**

To thwart that possibility, many directors are starting to offer more "commercial" foods. A hospital north of Chicago buys pizza from a popular local pizza shop, reheats it and sells the product in the cafeteria. Other hospitals have become burger chain franchisees.

Part of the marketing effort will be an increased emphasis on theme days. Everyone in hospitals, from administrators to patients' visitors, will be encouraged to participate in special events whether they be pumpkin-carving contests or outdoor picnics.

**The for-profits**

Not long ago, the for-profit hospital chains were making newspaper headlines almost daily as they bought up hospital after hospital across the country. Now they're making headlines because they're selling them. Basically, the panacea they had envisioned seems to have caused more harm than good. Most experts expect the for-profits to maintain a rather low profile in the next year, continuing to sell off their unprofitable hospitals and subsidiaries (or closing them), selectively pursuing the profitable ones and expanding into other businesses—not necessarily related to health care.

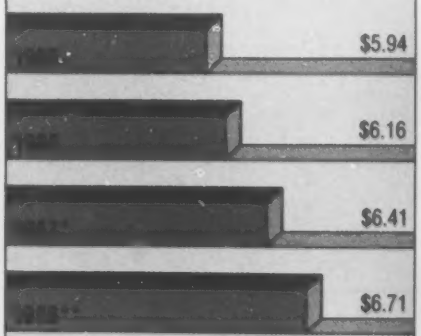
"I expect we'll see the for-profit chains entering the shopping mall and parking lot businesses," says one director. "They've taken a real bath recently. They're going to expand their bases of operation but, simultaneously, be a lot more cautious." —*S.S.*

# 1988 ANNUAL FORECAST

**COLLEGE ENROLLMENT UP, AND SO IS COMPETITION**

To compete with neighboring fast-food restaurants, campus foodservice operations are offering broader selections and emphasizing quick service and food freshness. Concurrently, many colleges have allowed food and convenience-store franchises to move onto campus property. For many facilities built in the '60s college boon, the time has come to rebuild and refurbish.

(food and non-alcoholic beverage sales in billions)




**1988 units: 3,350**

**1988 market share: 3.2%**

**1988 beverage alcohol sales: $38 million**

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*preliminary **forecast

■ **COLLEGES & UNIVERSITIES**

## Commercial approach to services and dining facilities keeps students on campus.

The major growth in college and university foodservice will probably stem from expanded efforts to capture more of the total food dollars spent by the campus community. Although the U.S. Department of Education projects a 1% increase for 1988 in college and university enrollment, *R&I* projects only 0.4% real growth in campus foodservice sales.

Improved and diversified services account for much of the projected sales growth. Rather than lose food dollars to commercial operations off campus, many colleges and universities have already opened or plan to open their own fast-food restaurants, convenience stores, retail bakeries and even hotels.

Donald M. Jacobs, executive director of hospitality services at University of Pennsylvania, Philadelphia, says that incoming students are much more sophisticated now than in the past and they expect the same options and convenience at meal time as they have at home. But, he notes confidently, "We know our market." His market includes guests of Penn Tower, the 21-story hotel the university purchased last year for $17.9 million.

In other developments:

■ Many schools are inspecting ways to make meal plans more attractive. Aside from access to cafeterias open 12½ hours each day, the University of Tennessee's meal plan gives students $50-per-quarter allowances to use at the university's three convenience stores and five bakery outlets. Students may obtain food on their meal plan as late as 2 a.m. at the dormitory c-stores, which feature deli counters and packaged goods.

■ The glut of relatively high-paying jobs off campus and the willingness of many parents to fully subsidize their children's first two years of school has left many college foodservices short on student labor, says Jacobs. In the coming year, many universities will review salary rates and perks and launch campus recruitment programs. —*G.C.*

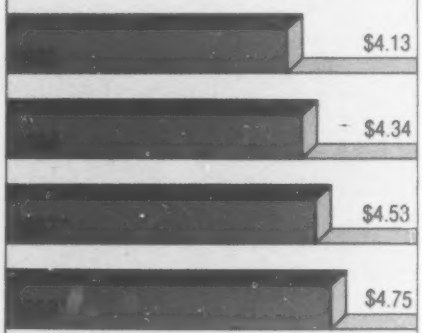
**Expanded service encourages students to spend their meal money on campus.**

# 1988 ANNUAL FORECAST

**MILITARY MARCHING TO A DIFFERENT DRUMMER**

As commercial competition on military bases becomes a greater concern, market research is intensifying to pinpoint troops' preferences in both products and services. Menus are reinforcing nutrition initiatives and providing soldiers with greater opportunities to select a well-balanced diet.

(food and non-alcoholic beverage sales in billions)




**1988 units: 3,320**

**1988 market share: 2.3%**

**1988 beverage alcohol sales: $399 million**

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*preliminary **forecast

■ **MILITARY**

## Quality menus prove to be mess clubs' best defense against outside competition.

Military foodservice personnel continue to focus a keen eye on commercial trends, as all branches of the armed services are putting greater emphasis on training, variety, quality and healthful options.

At Army installations, items such as low-calorie salad dressings are helping reduce fat intake. Increased servings of low-calorie breakfast breads are cutting into consumption of high-calorie doughnuts and pastries. The Air Force introduced breakfast bars, using existing salad bar equipment, providing both convenience and non-traditional breakfast favorites.

The Air Force has also put a strong emphasis on automation of foodservice programs at the base level. Computers are being installed at dining halls to log production, menus, recipes and inventory, allowing for future forecasting and menu portioning.

Military foodservice reports little impact from commercial outlets on base. "Young people see us as the best buy on the base," says Germaine Gotshall, the Air Force's chief of the food management division. "The chain restaurants were novel at first, but the troops were quick to realize it was money out of their pockets when we offered the same food anyway."

At the club level, response to growing competition from restaurants outside the bases has been much more intense.

In attempts to provide the same service found at commercial operations, the Navy Mess (club) system has turned its attention to training and promoting. Menus are becoming more varied and cater to regional ethnic trends.

Because more families can be found on military bases, many clubs are becoming family-oriented, providing children's menus.

Because 9,000 enlisted personnel under 21 years old can no longer drink alcohol, the Army Clubs and Recreation system is successfully beefing up its food sales. Sales are up 30% at Fort Bragg in Virginia since the manager at the non-commissioned officer's club began emphasizing food as opposed to drink. The manager had particular success with lighter fare.

**Preparation of war-time rations will be emphasized.**

Here are some of the items on the agenda for military foodservice programs in 1988:

■ The Air Force will continue the crusade led by the surgeon general to provide items lower in cholesterol and sodium to reduce incidence of heart disease. Starred items on the Sensible Limited Intake Menu (SLIM) will be prepared with less salt, gravies and sauces. Some facilities are exhibiting sample trays to give the troops a sneak preview of meals.

■ The Army clubs will publish operating specifications in 1988 to establish a quality baseline for facilities worldwide. Prototype administrative procedures, catering menus, brochures and promotional packages will be created and distributed in hard copy and on computer disk.

■ Feeling the pinch of untrained personnel, especially as Congress clamps down on appropriated funds, the Army clubs are recruiting from the hotel and restaurant schools in an effort to bring better-trained personnel into the system.

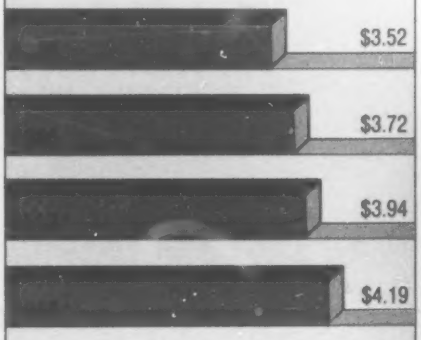
*—Jeff Weinstein*

# 1988 ANNUAL FORECAST

**MORATORIUM SLOWS SEGMENT GROWTH**

Although the elderly population continues to grow, creating a need for more nursing homes, moratoriums in certain states on nursing home expansion have caused demand to outstrip supply. One part of the segment that is enjoying rapid growth, however, is the life-care center, which caters to the more affluent, healthier senior citizen.

(food and non-alcoholic beverage sales in billions)




**1988 units: 23,100**

**1988 market share: 2%**

**1988 beverage alcohol sales: $23 million**

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*preliminary **forecast

■ **NURSING HOMES**

## Healthier, wealthier elderly demand new types of nursing care and retirement facilities.

It is hard to ignore 2 million people—the projected population of elderly in nursing homes by 1990. The growing population of Americans over age 65, a healthier, more affluent population than ever before, has changed the nature of the nursing-home industry. In addition to traditional full-care nursing homes, there are now facilities called life-care centers that are geared to older people who are able to take care of themselves but don't want the hassles of home ownership anymore.

Traditional nursing homes today are dealing with a different kind of patient. Because of increasing incidence of day care for the elderly, community health-care organizations and visiting nurses (which allow people needing minimum care to stay at home longer) and early hospital release, people who do enter nursing homes are often sicker when they arrive and need assisted care. These people are also more likely to return home for recuperation. "We are discharging more people than ever before. We now need to have two and a half admissions for every one person we keep long-term," says Karen Talbot, administrator at Cambridge Health Care Center, Indianapolis, a 120-bed nursing home.

This new population has had an impact on nursing-home foodservice. The type of patient and level of care is changing. Foodservice operators are catering to a more alert and demanding patient. "We need to be much more attentive to special diets for recuperation," says Talbot. "We are now dealing with patients who know what they like and don't like. The food spectrum has to improve." A typical menu at Cambridge includes scalloped flounder au gratin, almond pilaf, vegetable marinate, and ham and bean soup—hardly a stereotypical nursing-home diet.

Funding continues to be a problem in nursing homes, which affects expansion, employment of nurses and aides, as well as the quality of foodservice. But legislation aimed at ensuring quality of long-term care has been slow in coming. As a result, many states have placed

**Cambridge Health Care Center, Indianapolis, keeps only one long-term patient for each 2½ admissions.**

# 1988 ANNUAL FORECAST

moratoriums on nursing-home construction. Existing nursing homes wishing to expand and developers wanting to build new facilities have been handicapped by these moratoriums, and the American Health Care Association estimates only a 2% increase in number of beds over 1986 totals.

One of the trends in the nursing-home business is the growth of regional, local and national chains. It is often more financially feasible for chain, rather than independent developers, to build a new type of nursing home with a continuum of care.

**Alternative life-care centers**

The newest segment of the nursing-home industry, life-care centers, is designed specifically for elderly who are ready to give up home ownership and are looking for living situations that provide comforts and conveniences in their own hometowns. The Highlands in Fall River, Mass., is one such development.

The property started out as a hospital, and the building was purchased jointly by Claremont Co. Inc. and J. Karam Management Co. after the hospital merged with another in the area. The facility was gutted and redesigned. A fine-dining restaurant and more casual cafe were built overlooking the swimming pool, whirlpool and terrace and leased to an outside operator. Barber and beauty shops, a bank and convenience store also became part of the "Main Street USA" shopping area. These amenities are available for residents and their guests. The foodservice is partially subsidized to encourage patronage.

ARA Services' health-care division, the largest privately held provider of long-term health care and the third largest chain, also is looking to provide service for healthy older people. Although the company currently has no retirement centers, ARA is planning to build life-care facilities connected to or near existing nursing homes.

**The next generation of living**

What is the future of the nursing-home industry? Clearly long-term acute care will exist side-by-side with life-care communities. Financing for the building of new facilities will continue to be a problem.

New regulations are forcing nursing homes to reform standards, including number of nurses in homes and type of training for aides and nurses. Yet there is a serious shortage of trained personnel, exacerbated by inadequate pay. Julie Ditzler, administrator at Nile Health Care Center in Minneapolis, sees the nursing shortage as a serious problem, one she thinks can be helped by a volunteer force for less skilled tasks such as feeding.

Catastrophic health-care legislation that recently passed the House and Senate will have some indirect impact on the nursing-home industry. Medicare, which provides health insurance for elderly regardless of income, covers less than 2% of all long-term nursing-care bills. And Medicaid, which pays about 40% of all nursing-home care in America, in essence requires that elderly persons impoverish themselves before they become eligible. But Linda Keegan of American Health Care Association sees a side benefit.

"Catastrophic health-care legislation has made people more aware that most long-term care is not covered by Medicaid or insurance. Within the next five years, we will see proposals to encourage government and the private sector to work together. I think we will see the advent of private long-term-care insurance," says Keegan.

Keegan also projects that by the late 1990s we may see the nursing home as the focal point for all levels of nursing care. She sees homes also providing hospice and day care as well as traditional nursing care. ***—Nancy Backas***

**Nile Health Care Center, Minneapolis**

**WHAT'S NEW FOR 1988**

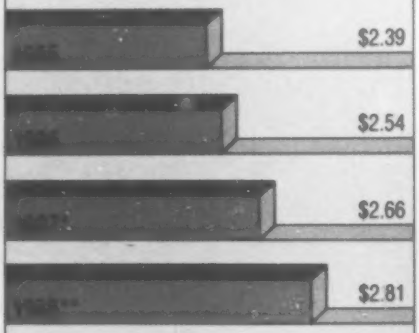
- Serious shortage of trained nursing personnel, aggravated by inadequate pay, continues to plague the nursing-home industry.
- Catastrophic health-care legislation indirectly affects nursing homes by building awareness of inadequacy of Medicaid and insurance coverage for long-term care.
- Nursing homes will expand nursing-care services in the future, providing hospice care and day care as well as conventional skilled acute nursing care.
- Developers are discovering that long-term-care facilities built in conjunction with retirement life-care communities are good investments since demographics point to a growing population of healthy, longer living, more financially stable elderly.

# 1988 ANNUAL FORECAST

**PASSENGER COUNTS TO RISE IN 1988**

*R&I* is predicting 1.5% real growth for the transportation segment, which means the airlines are expecting more passengers and allocating slightly more money to feed them. Major carriers now spend an average of $4.20 per person on food and drink.

(food and non-alcoholic beverage sales in billions)




**1988 units: 350**

**1988 market share: 1.4%**

**1988 beverage alcohol sales: $485 million**

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■ **TRANSPORTATION**

## Lighter-than-air fare: Airlines continue to lighten up with fresh foods and cold meals.

The message from the transportation segment came in loud and clear this year: The airlines are lightening up. Every carrier and contractor *R&I* contacted mentioned continued movement away from heavier entrees towards lighter, leaner fare: more poultry, more fish, more salads. This trend is most visible at Piedmont, where, two years ago, beef accounted for 70% of all entrees, and poultry, 30%; today those figures are reversed. Demand for simpler foods that require less preparation —sandwiches, fresh fruits, raw vegetables, cheese—also is on the rise.

"People want things less fancy and more wholesome," says Werner K. Gerst of Sky Chefs. "The element of recognizable product came in loud and clear." As a result of this demand for fresh foods, more and more airlines are offering cold meals as an option.

According to Denise Poole of Piedmont: "People want lighter, and to get light you often have to go cold."

Other airlines, however, continue to promote their hot meal service:

■ In 1987, new United Airlines Vice President of Foodservice Pat O'Brien came on board and began to revise menus, emphasizing the seasonal rotation of dishes. He also instituted the Octoberfest meal option, which included smoked pork loin, a bratwurst-type sausage, red cabbage and potatoes, plus fresh apple strudel.

■ Midway Airlines serves some 300,000 cold meals (or "chilled light snacks") a month: muffins, cereal and fresh fruit at breakfast, croissant sandwiches later in the day. At breakfast, the airline added self-serve cereals in plastic bowls and yogurt in a continuing move away from sweet, pastry-type items to foods that are perceived as healthier. The big news from Midway is the addition of hot food in 1988.

■ Piedmont added first-class service on all flights in June 1987 and according to Manager of Food Services Denise Poole, adding first-class meals was a major undertaking. When developing new menus, Poole emphasized fresh fruits and vegetables while minimizing the use of processed foods.

***—Julie Mautner***

**United Airlines is emphasizing its seasonal menus.**

# MENUS

■ R&I DATA

**FOOD COST INDEX: PRICES REMAIN STEADY AS A NEW YEAR BEGINS**

The market-basket total, at $106.26, is up slightly from December's total of $105.93. This is due in part to an increase in the price of breaded fish portions and peas. The market-basket total a year ago was $105.56. The new year brings lower prices in lettuce, peaches, butter and coffee.

| | | % change | |
|---|---|---|---|
| | 1/88 | 12/87 | 1/87 |
| Hamburger (lb. 85% lean) | 1.29 | 0 | 3 |
| Chicken (lb. cut for frying) | .77 | 3 | -21 |
| N.Y. strip steak (lb./avg.) | 3.58 | 5 | 12 |
| Bread (Pullman loaf) | .72 | -6 | 0 |
| Lettuce (iceberg/head) | .50 | -18 | 4 |
| French fries (30 lb.) | 11.24 | 0 | 2 |
| Tomatoes (lb.) | .51 | -7 | -6 |
| Milk (gal.) | 1.82 | 0 | 3 |
| Eggs (doz.) | .71 | 1 | -9 |
| Peaches (case/#10) | 16.29 | -14 | -6 |
| Peas (case/#10) | 12.33 | 10 | -9 |
| Frozen beans (30 lb.) | 15.32 | 3 | 26 |
| Ice cream (vanilla/gal.) | 3.39 | 1 | 0 |
| Butter (lb.) | 1.54 | -14 | -15 |
| Cheddar cheese (lb.) | 1.59 | -1 | -6 |
| Sugar (100 lb.) | 30.52 | 5 | 1 |
| Coffee (lb.) | 2.43 | -1 | -20 |
| Breaded fish portions (lb.) | 1.71 | 16 | 2 |

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■ FOOD PRICE UPDATE

# Operators Reap the Benefits from Record Harvests

## Blueberries, apples, cherries, salmon and snow crab all had good seasons.

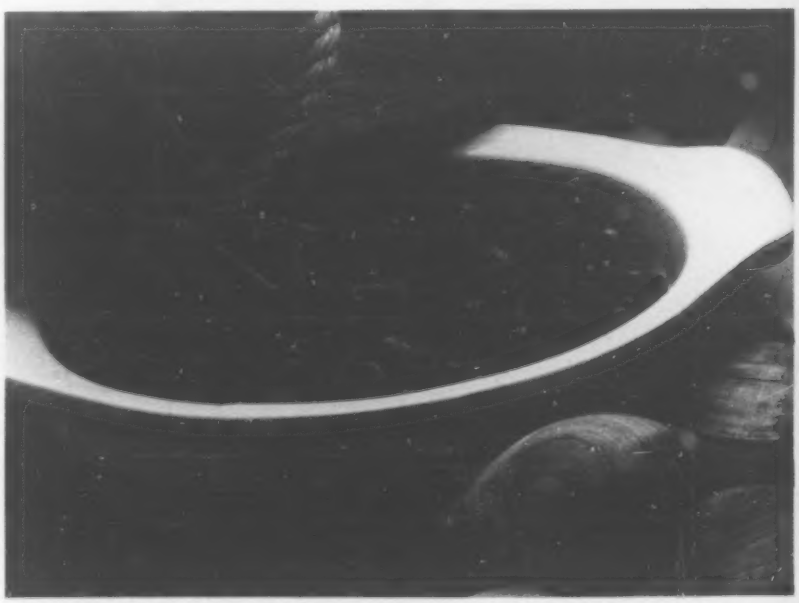
New Zealand cultivated blueberries will be available in the United States through February. This supplements the crop of North American blueberries, available April through September. During the past three years, blueberry imports into the United States from New Zealand have doubled.

. . . Record harvests last summer netted 23 million pounds of Alaskan King crab, up 33% from 1986. Snow crab harvests continue on the rise as well, with the United States consuming 72% of Alaska's harvests. . . . One hundred twenty-seven million wild Alaska salmon were harvested in 1986. Of this catch, 76% were sold as fresh or frozen, with the remainder canned. This trend reflects customers' fresh/frozen preference, up from 39% in 1980, 50.6% in 1985 and 62.7% in 1985. . . . "We have a record crop," says a spokesperson from the Washington Apple Commission. "Apples everywhere." The latest harvest figure was 72.6 million boxes of apples. Prices are expected to decline; currently they are down about 25% from 1986.

The drought in the Northwest did not affect the apples because the fields were well-irrigated. The weather did have an early effect on the crop, however. A long spell of high temperatures prevented the apples from coloring early. They were left on the tree to redden when the weather turned cooler, an advantage for apple lovers: The longer the apples are left on the tree, the bigger and sweeter they become.

. . . Worldwide, the United States has the largest potential for and actually produces the most sweet and tart cherries. In 1986, 229 millions pounds of tart cherries were produced; the figure rose to 260 million pounds in 1987.

*—Kathleen Marshall*



**Fresh blueberries are available almost all year-round with New Zealand and North American varieties.**

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